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ABSTRACTS

The Sovereign Limits of Global Civil Society

A COMPARISON OF NGO PARTICIPATION IN UN WORLD CONFERENCES ON THE ENVIRONMENT, HUMAN RIGHTS, AND WOMEN

By ANN MARIE CLARK, ELISABETH J. FRIEDMAN, and KATHRYN HOCHSTETLER

The increased visibility of nongovernmental organizations (NGOs) and social movements at the international level invites continuing evaluation of the extent and significance of the role they now play in world politics. While the presence of such new actors is easily demonstrated, international relations scholars have debated their significance. The authors argue that the concept of global civil society sets a more demanding standard for the evaluation of transnational political processes than has been applied in prior accounts of transnational activity. Further, most empirical studies of this activity have focused on a limited number of NGOs within a single issue-area. Using three recent UN world conferences as examples of mutual encounters between state-dominated international politics and global civic politics, the authors develop the concept of global civil society to provide a theoretical foundation for a systematic empirical assessment of transnational relations concerning the environment, human rights, and women at the global level.

Political Capital

MEXICAN FINANCIAL POLICY UNDER SALINAS

By TIMOTHY P. KESSLER

Market reform is advocated in developing countries to improve economic efficiency and prevent privileged groups from obtaining rents from the policy-making process. Yet this prescription fails to address the complex political process that governments are likely to confront when moving toward the market. This study shows how political considerations during President Salinas's administration distorted economic reform in Mexico.

During the 1990s Mexican finance policy contradicted the government's declared neoliberal principles. While the banks were reprivatized and deregulated, they were also given a high degree of protection from competition, enabling the new owners to charge excessive interest rates. In addition, the government artificially inflated the value of the currency through exchange-rate intervention. These contradictory policies are best understood as a coherent political response to the electoral vulnerability of the ruling party (PRI) at the end of the 1980s. When viable political opposition threatened the PRI's ability to maintain power, it responded by using financial policies to distribute economic benefits to social groups, particularly business, the middle class, and the poor, whose support was critical for electoral victory.

Welfare-State Retrenchment Revisited

ENTITLEMENT CUTS, PUBLIC SECTOR RESTRUCTURING, AND INEGALITARIAN TRENDS IN ADVANCED CAPITALIST SOCIETIES

By RICHARD CLAYTON and JONAS PONTUSSON

In recent years it has become commonplace for comparativists to emphasize the resilience of welfare states in advanced capitalist societies and the failure of neoliberal efforts to dismantle the welfare state. Challenging some tenets of the resilience thesis, this article seeks to broaden the discussion of welfare-state retrenchment. The authors argue that a sharp deceleration of social spending has occurred in most OECD countries since 1980, that welfare states have failed to offset the rise of market-generated inequality and insecurity, and that welfare programs have become less universalistic. They stress the distributive and political consequences of market-oriented reforms of the public sector.

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POLITICAL INSTABILITY AND ECONOMIC PERFORMANCE
EVIDENCE FROM REVOLUTIONARY MEXICO
By STEPHEN HABER and ARMANDO RAZO

What is the relationship between political instability and economic growth? This article examines this question using insights from the new institutional economics applied to a canonical case: revolutionary Mexico. The authors argue that investment and growth during and after the revolution were less affected by political instability than one might predict based on the extant theoretical and empirical literature. They find that while investor expectations, output, and productivity were sensitive to the interdiction of factor and product markets during the years of intense revolutionary violence (1914–17), the periods of political instability before (1910–13) and afterward (1918–34) had relatively minor effects on investor confidence, investments in new plant and equipment, rates of entry and exit by firms, industrial structure, and productivity growth.

NEOCLASSICAL REALISM AND THEORIES OF FOREIGN POLICY
By GIDEON ROSE

Although international relations theory has been dominated for two decades by debates over theories of international politics, recently there has been a surge of interest in theories of foreign policy. These seek to explain, not the pattern of outcomes of state interactions, but rather the behavior of individual states. The author surveys three prominent theories of foreign policy and shows how the works under review set out a compelling alternative, one that updates and systematizes insights drawn from classical realist thought. Neoclassical realism argues that the scope and ambition of a country's foreign policy is driven first and foremost by the country's relative material power. Yet it contends that the impact of power capabilities on foreign policy is indirect and complex, because systemic pressures must be translated through intervening unit-level variables such as decision-makers' perceptions and state structure. Understanding the links between power and policy thus requires close examination of both the international and the domestic contexts within which foreign policy is formulated and implemented.

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THE SOVEREIGN LIMITS OF GLOBAL CIVIL SOCIETY
A Comparison of NGO Participation in UN World Conferences on the Environment, Human Rights, and Women

By ANN MARIE CLARK, ELISABETH J. FRIEDMAN, and KATHRYN HOCHSTETLER*

THE increased visibility of nongovernmental organizations (NGOs) and social movements at the international level invites continuing evaluation of the extent and significance of the role they now play in world politics. Competitive and complementary actors crowd states' central position. While the presence of such new actors is easily demonstrated, international relations scholars have debated their significance. Realists and their intellectual allies argue that nation-states retain their central position; NGOs are a sideshow of international politics, if considered at all. At the other extreme, the literature on transnational relations asserts that global social interactions are dense and important enough to represent a new sector of influence upon states—a "global civil society" circumscribing states' relative autonomy.

We argue that the concept of a global civil society sets a more demanding standard for the evaluation of transnational political processes than has been applied in prior accounts of such activity. Further, most empirical studies of this activity have focused on a limited number of NGOs within a single issue area. Using three recent UN world conferences as examples of mutual encounters between state-dominated international politics and global civil politics, we develop the concept of global civil society to provide a theoretical foundation for a systematic

* An earlier version of this article was presented at the annual meeting of the International Studies Association, held in Toronto, March 18–22, 1997. We would like to thank Juergen Dedring, James A. McCann, Jackie Smith, and Carolyn Stephenson for helpful comments. Eric Shibuya and Jennifer Suchland provided research assistance. Any remaining errors are, of course, our responsibility alone. The ordering of the authors' names is alphabetical.

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empirical assessment of transnational relations concerning the environment, human rights, and women at the global level.[1]

Global Civil Society

Theories of civil society based on domestic politics envision frequent and dense exchange among individuals, groups, and organizations in the public sphere, separate from state-dominated action.[2] A well-developed civil society potentially influences government in two ways. It enhances political responsiveness by aggregating and expressing the wishes of the public through a wealth of nongovernmental forms of association, and it safeguards public freedom by limiting the government's ability to impose arbitrary rule by force.[3]

At the international level, it is as yet unclear whether the increase in the number of NGOs with shared transnational goals can be equated with an emerging global civil society.[4] Although NGO networks of interaction that parallel or intersect the international state system may have meaning for the participants, unless they are focused and received in particular ways, they do not necessarily affect states' positions. What should one expect to see if the growing NGO presence indeed presages global civil society? To answer this question, we first briefly consider the meanings of *global, civil,* and *social,* and then explain the empirical indicators of each term. (See Table 1.)

To describe the social relations among nongovernmental actors as *global* is to assume that the "complex network of economic, social, and cultural practices" forming global civil society is widespread enough

[1] Others have observed that further investigation is necessary. Martin Shaw observes that "too little attention has been paid" to the "empirical analysis of [social movements in civil society] and their relevance to the global/interstate contexts." Thomas G. Weiss, David P. Forsythe, and Roger A. Coate note that "the differences, conflicts, and tensions in the interstate order are relatively well documented and discussed; this is not true for the nonstate order." Shaw, "Civil Society and Global Politics," *Millennium: Journal of International Studies* 23 (Fall 1994), 648; Weiss, Forsythe, and Coate, *The United Nations and Changing World Politics,* 2d ed. (Boulder, Colo.: Westview, 1997), 252–53.

[2] Although there are many variants of the concept, civil society is made up of "some combination of networks of legal protection, voluntary associations, and forms of independent public expression." Jean L. Cohen and Andrew Arato, *Civil Society and Political Theory* (Cambridge: MIT Press, 1992), 74. Ronnie Lipschutz and Shaw review conceptions of civil society in international relations theory. See Lipschutz, "Reconstructing World Politics: The Emergence of Global Civil Society," *Millennium: Journal of International Studies* 21 (Winter 1992), 389–91; and Shaw (fn. 2), 647–49.

[3] See, for example, Schmitter's discussion of how civil society contributes to democratic consolidation. Philippe C. Schmitter, "Civil Society East and West," in Larry Diamond et al., eds., *Consolidating the Third Wave Democracies: Themes and Perspectives* (Baltimore: Johns Hopkins University Press, 1997), 247.

[4] See discussion of this point in Margaret E. Keck and Kathryn Sikkink, *Activists beyond Borders: Advocacy Networks in International Politics* (Ithaca, N.Y.: Cornell University Press, 1998), 32–34.

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TABLE 1
GLOBAL CIVIL SOCIETY
DEFINITIONS AND EMPIRICAL INDICATORS

Term	*Definition*	*Empirical Indicator*
Global	Geographically diverse and balanced representation; includes nonstate actors	Number of NGOs from different world regions
Civil	Regularized participation in global interactions; NGO access to global forms of governance	Procedures and repertoires
Society	Existence of social regard; mutual behavioral expectations; shared substantive understandings	Substance and shared frames

that actors from all over the world are involved in the interactions.[5] The term *international* would only suggest increasing interactions among states, while the term *transnational* is used to characterize regular activity crossing national borders that involves at least one nonstate actor.[6] To celebrate this form of interaction as global, thereby intimating that representation both is geographically diverse and includes nonstate actors, raises the stakes considerably.

The explosion in the number of actors is a minimal condition for the rise of global civil society, but deeper changes should be evident in the quality of nongovernmental access and proximity to global forms of governance. The *civil* component of global civil society connotes both regularized nonstate participation in global interactions and NGO access to states and other NGOs. It cannot be assumed either that a greater number of nonstate actors translates directly into more systematic participation within international governmental organizations or that states and international organizations uniformly respond to NGO "knocks" by opening the intergovernmental "doors."

Finally, the *social* component of global civil society presumes a quality of interaction among the relevant actors that goes well beyond the

[5] Paul Wapner, "Politics beyond the State: Environmental Activism and World Civic Politics," *World Politics* 47 (April 1995), 313. See also Jackie Smith, Ron Pagnucco, and Charles Chatfield, "Social Movements and World Politics: A Theoretical Framework," in Smith, Pagnucco, and Chatfield, eds., *Transnational Social Movements and World Politics: Solidarity beyond the State* (Syracuse, N.Y.: Syracuse University Press, 1997).

[6] Thomas Risse-Kappen, "Bringing Transnational Relations Back In: Introduction," in Risse-Kappen, ed., *Bringing Transnational Relations Back In: Non-State Actors, Domestic Structures and International Institutions* (Cambridge: Cambridge University Press, 1995), 3.

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classic billiard-balls analogy. Actors in society are actors in relationship with each other. These relationships are grounded in the presumption that participants "may care how they are regarded by others" beyond simple interest calculations.[7] In turn, they develop expectations of other participants and their actions. In those relationships, they work toward developing common understandings of their relationships and of substantive issues, although complete agreement is not required for social relations.

Bearing in mind those definitions, how global is the civil society we find participating in UN world conferences? A newly global UN conference constituency should be reflected in the geographical diversity and the number of nongovernmental participants in official and parallel UN proceedings.

The quality of civil participation can be determined by assessing the procedures governing NGO activity at UN world conferences. To regulate and channel increased participation and increased demands by NGOs, we would expect, at a minimum, to see new rules facilitating NGO contributions as well as greater overall interaction. These include matters such as conference accreditation, numbers of NGOs in attendance at the conferences, and the nature of contention over NGO participatory status.

In particular, we seek to trace the development of repertoires of NGO participation, the specific ways that NGOs insert themselves into the conference process. A repertoire is "not only what people *do* when they make a claim; it is what they *know how to do* and what society has come to expect them to choose to do."[8] UN world conferences must use NGO consultative status to the UN Economic and Social Council (ECOSOC) as a baseline for NGO participation; in each conference process, however, the specific rules for NGO attendance and involvement, controlled in the end by states, are freshly negotiated. The evolving NGO repertoire thus reflects the changes in state expectations about the NGO role. At the same time, the NGO repertoire in all issue areas increasingly includes a "parallel repertoire" of NGO-to-NGO interactions, beyond that sanctioned by governments. To assess the impact of repertoire change on the "civility" of global relations, we trace the NGO repertoires and then investigate patterns of government responses.

[7] David Halloran Lumsdaine, *Moral Vision in International Politics: The Foreign Aid Regime, 1949–1989* (Princeton: Princeton University Press, 1993), 25.

[8] Sidney Tarrow, "Cycles of Collective Action: Between Moments of Madness and the Repertoire of Contention," in M. Traugott, ed., *Repertoires and Cycles of Collective Action* (Durham, N.C.: Duke University Press, 1995), 91. Emphasis in original.

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We seek evidence of the quality of social interaction in current global politics by examining the substantive content of NGO participation, with the expectation that common understandings are developing both among NGOs themselves and between NGOs and states. To what extent have NGOs, through their participation at UN conferences, been able to change the agenda and understandings of governments at those conferences? Do NGO achievements at the 1990s' UN conferences show that a common society has emerged in the form of new networks and understandings among previously separate NGO actors? We address those questions by examining the frames used by different participants in the conferences to describe and motivate their own or others' participation. A frame is a concept that refers to a pattern in participants' beliefs about the causes of and solutions to contested issues.[9]

The meanings, and thus the substance, of a particular issue are actively created and dynamically reinforced by the frames participants use. In the milieu of a UN world conference there will be varying degrees of alignment between the frames used by different participants. The development of common frames suggests more complete global integration among NGOs and between NGOs and states. If there is a development in social relations, we would see similar or related patterns of responses from the governments in the different conferences, not only among the NGOs themselves. Alternatively, differences in NGO input, participation, and reception at the conferences may suggest an incomplete shift to a coordinated society. Thus our analysis of the substance of NGO participation asks to what degree NGOs have managed to construct a shared frame among themselves and, then, to what degree their participation in UN issue conferences has helped to realign the frames of governments with their own.

To summarize our conclusions briefly, we do find evidence that the construction of a global society is under way but is far from complete. Thousands of NGOs have gathered to form a global presence at UN conferences, but significant divisions remain among them as well as among the participating governments. While NGOs are increasingly developing shared procedural repertoires, governments' inconsistent acceptance of NGOs' participation mitigates against the claim of civility. Finally, while we do find evidence of deepening common frames among NGOs, between NGOs and states we find less evidence of a sus-

[9] David A. Snow and Robert D. Bedford, "Master Frames and Cycles of Protest," in A. D. Morris and C. M. Mueller, eds., *Frontiers in Social Movement Theory* (New Haven: Yale University Press, 1992), 137.

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tained social relationship. States continue to dominate the procedures and the substance of interaction on key sovereignty-related issues.

The Empirical Domain

As contributors to the wealth of global activity, NGOs are some of the more curious contenders for a role at the UN world conferences. Their most important claims for inclusion rest on norms of democracy and civic participation, which historically have been weak at the international level. The early United Nations institutionalized the ideal of social representation by creating a consultative status for NGOs within ECOSOC, but only 418 NGOs held this status in 1993 as the new UN conference cycle was getting under way.[10] Today, however, tens of thousands of NGOs participate in new ways, particularly during UN world conference processes. Some avidly target intergovernmental politics as they lobby and help formulate, implement, and monitor the policies of states and intergovernmental organizations, while others supplement or eschew traditional political channels.[11] In practice, many NGOs adopt goals that straddle the division, coordinating dialogue with the grassroots sector *and* using lobbying tactics to target governmental and international policymakers.[12]

The intense interactions between and among states and NGOs during the conference processes provide a microcosm of global state-society relations for our study. The conferences are called on a nonroutine basis and address a limited agenda within a single issue area.[13] In this article we address three recent UN "megaconferences" and their historical precedents: the 1992 Conference on Environment and Development (UNCED, or Earth Summit), held in Rio de Janeiro; the 1993 World Conference on Human Rights, held in Vienna; and the 1995 Fourth

[10] Anne Bichsel, "NGOs as Agents of Public Accountability and Democratization in Intergovernmental Forums," in W. M. Lafferty and J. Meadowcroft, eds., *Democracy and the Environment* (Brookfield, Vt.: Edward Elgar, 1996), 241.

[11] Organizations falling into the latter category sometimes call themselves social movements, but we have chosen to use the term *nongovernmental organization* to refer to groups with both types of aims. This term is the most appropriate choice for this article since it is also the UN designation for such groups.

[12] Many NGOs, of course, use both simultaneously. Works that address social movements' political roles directly are: Kathryn Hochstetler, "The Evolution of the Brazilian Environmental Movement and Its Political Roles," in D. Chalmers et al., eds., *The New Politics of Inequality in Latin America: Rethinking Participation and Representation* (New York: Oxford University Press, 1997); and Wapner (fn. 5). See also Ann Marie Clark, "Non-Governmental Organizations and Their Influence on International Society," *Journal of International Affairs* 48 (Winter 1995).

[13] Peter Willetts, "The Pattern of Conferences," in P. Taylor and A. J. R. Groom, eds., *Global Issues in the United Nations' Framework* (New York: St. Martin's Press, 1989), 37.

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TABLE 2
THE UN AND OTHER RELATED CONFERENCES

	Environment	*Human Rights*	*Women*
1960s		1968: International Conference on Human Rights, Tehran	
1970s	1972: United Nations Conference on the Human Environment (UNCHE), Stockholm		1975: World Conference of the International Women's Year, Mexico City
1980s			1980: World Conference of the UN Decade for Women, Copenhagen
			1985: World Conference to Review and Appraise the Achievements of the United Nations Decade for Women, Nairobi
1990s	1992: United Nations Conference on Environment and Development (UNCED), Rio de Janeiro	1993: United Nations World Conference on Human Rights, Vienna	1995: Fourth World Conference on Women, Beijing

World Conference on Women, held in Beijing. (See Table 2).[14] Our cases are three of the largest conferences of the 1990s. Each was preceded in the last twenty-five years by at least one earlier world conference, which allows us to assess the chronological development of global civil society at such conferences. In addition, each of these conferences is substantively different from the others, but there are also areas of overlap between the issues, which participants might shape into a common frame. Although we strive for meaningful variation across cases, it should be noted that we provide only a sample of conferences as cases.

[14] Elisabeth J. Friedman observed the Vienna NGO forum; the NGO forum of the Latin American and Caribbean Regional PrepCom for Beijing at Mar de Plata, Argentina; and the Beijing conference, both the NGO forum and the official conference, as an accredited NGO representative. Kathryn Hochstetler observed four preparatory meetings of the Brazilian NGO forum for the UNCED in 1990 and 1991; a Latin American NGO preparatory forum sponsored by Friends of the Earth in São Paulo, Brazil; and the official and parallel meetings of the UNCED Fourth PrepCom. Throughout this article, we refer to the conferences either by their title or by the city in which they were held.

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We have limited the present study to three cases that are most closely linked to global social movements.[15]

All UN world conferences share similar goals and formats. A central focus of official business at each conference and its preparatory meetings is the creation of a final conference document to be endorsed by state participants. At regional preparatory meetings, governments develop regional positions on specific conference issues. The additional meetings of the Preparatory Committee (PrepComs) are global rather than regional and focus particularly on drafting the conference document. The wording of the final document is invariably the focus of intense politicking among states and between NGOs and states, which continues up to and through the conference itself.

NGOs do not have a standing equal to states in such negotiations. But opportunities for issue influence and network building arise as soon as official preparations for the conference begin. NGOs attend both the preparatory and final conferences, some registering with the official conference and some not.[16] A parallel NGO conference with a separate agenda, the NGO forum, has been a feature of most UN conferences and their preparatory meetings since the 1972 Stockholm Conference on the Environment. Supplementing the business of the forum is an extracurricular festival of NGO exhibitions and activities. In all these ways, NGOs seek to influence the governmental agenda, exploit news coverage of the event, and carry on business among themselves.

Global Civility? The Changing Procedures of NGO Participation in UN Conferences

From the late 1960s to the 1990s, the forms NGOs developed to participate in UN thematic conferences reveal significant advances in both

[15] The 1994 International Conference on Population and Development held in Cairo, Egypt, and some later conferences might also fit into our conceptual framework.

The largest difference between the 1994 Cairo conference and the conferences analyzed in this article may be that the first population conferences (Rome, 1954, and Belgrade, 1964) were specialist conferences characterized by specialized, knowledge-based, consultative interactions between NGOs and governments. These conferences were cosponsored by a transnational scientific organization, the International Union for the Scientific Study of Population (IUSSP). Planners for the 1974 population conference in Bucharest, although themselves a group of academics and government specialists, decided that it should not be another specialist conference. Thus, the Bucharest and later Mexico City (1984) and Cairo (1994) conferences were more broadly based, but still had a significant knowledge-based component. Paul Taylor, "Population: Coming to Terms with People," in Taylor and Groom (fn. 13), 151.

Applying our analytical categories to Cairo, our initial research suggests that the procedures governing NGO participation were not particularly contentious because alliances were built based on the shared knowledge component. With some possible exceptions, cleavages were characterized by NGO-to-government agreement on various sides of substantive issues rather than by disagreements between governments and NGOs.

[16] We use *official conference* and *PrepCom* (Preparatory Committee Session) to distinguish governmental proceedings from NGO forums.

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the quantity and the quality of their participation. Less than 300 NGOs attended the Stockholm Conference on the Environment.[17] In 1992, 1,400 NGOs registered with the Rio conference, and 18,000 NGOs attended the parallel NGO forum.[18] Only 53 NGOs in consultative status sent representatives to the 1968 Tehran International Conference on Human Rights, and four others attended at the invitation of the conference's Preparatory Committee.[19] For the 1993 Human Rights Conference in Vienna, a UN source lists 248 NGOs in consultative status and 593 as participants.[20] NGO reports estimated that 1,400 to 1,500 NGOs attended.[21] At the 1975 Mexico City Conference for International Women's Year, 6,000 people attended the NGO forum, and 114 NGOs gained access to the official conference; at the 1985 closing conference of the UN Decade on Women in Nairobi, 13,500 people registered for—and many more attended—the NGO forum, and 163 NGOs were accredited to the official meetings. Ten years later over 300,000 people attended the Beijing NGO forum, doubling previous attendance records. But equally impressive, 3,000 accredited NGOs gained access to the Fourth World Conference on Women.[22]

Beyond their expansion in sheer number, NGOs from all three issue areas also became increasingly involved in every stage of the conference process. The types and goals of NGOs expanded, along with the increases in the size and the extent of NGO participation. More NGOs representing local interests and NGOs from the developing world were able to take part in the processes. Partly due to this broader representation, the repertoires of NGOs expanded. While some focused on lobbying the official conference proceedings and affecting its documents, others deliberately used the UN conferences as a convenient locus for networking with other NGOs.

After an overview of NGO participation in early conferences, the remainder of this section focuses on the differences among NGOs over

[17] Sally Morphet cites estimates of 255 to 298 NGO observers. Morphet, "NGOs and the Environment," in Peter Willetts, ed., *"The Conscience of the World": The Influence of Non-Governmental Organisations in the U.N. System* (Washington, D.C.: Brookings Institutions, 1996), 144 n. 35.

[18] Weiss et al. (fn. 1), 239.

[19] UN Document A/Conf.32/41, "Final Act of the International Conference on Human Rights," Tehran, April 22 to May 13, 1968, part 1, para. 2, and annex 1, parts 5 and 6.

[20] United Nations Department of Public Information (New York), *Yearbook of the United Nations 1993*, vol. 47 (Dordrecht: Martinus Nijhoff, 1993), 908.

[21] International Commission of Jurists, "Preliminary Evaluation of the UN World Conference on Human Rights," *The Review of the International Commission of Jurists* 50 (1993), 109; Amnesty International, "Human Rights Groups Take Centre Stage," *Amnesty International Newsletter* 23 (September 1993), 8.

[22] See Arvonne Fraser, *The U.N. Decade for Women: Documents and Dialogue* (Boulder, Colo.: Westview Press, 1987); United Nations, *The United Nations and the Advancement of Women 1945–1996* (New York: United Nations Department of Public Information, 1996).

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their ideal procedural involvement as well as on the changes that occurred in the forms of both lobbying and networking strategies in the 1990s. Finally, subsections on governmental responses to NGO strategies show that while inroads were made, governments were unwilling to allow broad NGO participation, especially when it seemed to threaten their dominant position in negotiations. Thus, the "global civility" of global civil society has yet to be firmly established through shared state and NGO expectations around procedures.

Early Conferences

At the early UN conferences NGOs had a limited role in their governmental lobbying capacity. At the 1968 International Conference on Human Rights, the few NGO representatives who attended were observers only. The then nascent international human rights community lacked lobbying experience on human rights themes at the UN. At early conferences on other themes, the repertoire of NGO participation was also markedly small when compared with current roles. At conferences on the environment, governments gave primarily scientific and technical NGOs a role to play. Certain "hybrid" NGOS that were attached to the UN Educational, Scientific, and Cultural Organization (UNESCO) helped draft and negotiate preparatory conference documents at Stockholm.[23] At the Women's Decade conferences, NGO participation was initially limited, and few NGOs made official interventions.[24] NGOs were not involved in preparatory processes leading up to Mexico City and the 1980 World Conference of the UN Decade for Women in Copenhagen; however, they were included in both national and regional preparatory conferences for Nairobi.[25]

In the final documents of the early conferences, governments recognized NGOs not for their contributions to the conference but for their ability to help implement conference recommendations through education and publicity. The 1972 final environmental documents referred to NGOs in their educational role or as specialty groups on single issues.[26] The documents from the first women's conference in Mexico

[23] The International Union for the Conservation of Nature and Natural Resources and the International Conference of Scientific Unions were the early "hybrids." Morphet (fn. 17).

[24] For example, only two representatives per accredited NGO were permitted to participate on a limited basis in the governmental conference at Mexico City.

[25] See Carolyn M. Stephenson, "Women's International Nongovernmental Organizations at the United Nations," in A. Winslow, ed., *Women, Politics, and the United Nations* (Westport, Conn.: Greenwood Press, 1995).

[26] See Appendixes II and III in Wade Rowland, *The Plot to Save the World: The Life and Times of the Stockholm Conference on the Human Environment* (Toronto: Clarke, Irwin and Co., 1973).

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City mentioned the educational role of NGOs.[27] The Proclamation of Tehran did not mention NGOs, although a conference resolution on measures to eliminate racial discrimination appealed to NGOs and the media to publicize "the evils of *apartheid* and racial discrimination.[28]

Despite their limited lobbying capacity at the official conferences, NGOs had begun networking activity before the 1990s. There was no NGO forum in Tehran, but a de facto network formed in anticipation of the conference. In 1965 a human rights subcommittee of NGOs with ECOSOC consultative status began meetings to prepare for Tehran, and in 1968 an independent coalition of seventy-six NGOs and fifty independent experts drew up NGO recommendations for the official conference.[29]

At the 1972 Stockholm environmental conference, NGOs held their first parallel forum, concurrent with the official governmental conferences.[30] Similar to all later NGO forums, the first parallel conference gathered a wider variety of NGO participants than did the official conference. One observer characterized the Stockholm NGOs as "a colourful collection of Woodstock grads, former Merry Pranksters and other assorted acid-heads, eco-freaks, save-the-whalers, doomsday mystics, poets and hangers-on."[31] These NGOs were quite different from the more sober and scientific NGOs contributing to the official documents. Also presaging future NGO forums, participants in the Stockholm parallel conference spent much of their time simply getting to know each other, which precluded much impact on the official conference outcomes.

The NGOs attending the forums at the three conferences of the UN Decade on Women also brought together a diverse set of participants, who engaged in a kaleidoscope of activities from performances to prayer meetings. At Mexico City and Copenhagen, vigorous political debates often overtook discussions of women's common concerns. By the time of the Nairobi conference, the increased representativeness

[27] UN Document E/Conf.66/34 (76.N.1), "World Plan of Action for the Advancement of Women," Mexico City, 1975, in *The United Nations and the Advancement of Women, 1945–1995* (New York: UNDPI, 1995), 27, 185.

[28] "Final Act of the International Conference on Human Rights," UN Resolution III, May 11, 1978, 7.

[29] Both groups were coordinated by the former Irish diplomat Sean MacBride, who held simultaneous leadership positions in two major human rights NGOs. MacBride was the secretary-general of the International Commission of Jurists (ICJ) from 1963 to 1970 and chaired the International Executive Committee of Amnesty International from 1964 to 1974. Howard Tolley, *The International Commission of Jurists: Global Advocates for Human Rights* (Philadelphia: University of Pennsylvania Press, 1994), 105–9.

[30] Peter Willetts, "From Stockholm to Rio and Beyond: The Impact of the Environmental Movement on the United Nations Consultative Arrangements for NGOs," *Review of International Studies* 22 (January 1996), 67.

[31] Rowland (fn. 26), 1.

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among participants—and the shared conference history—allowed for more expanded and integrated dialogue in the hundreds of workshops and meetings held.

NGO Differences over Repertoires in the 1990s: Lobbying vs. Networking

By the 1990s, NGO participation had expanded in both the official conferences and parallel forums to the extent that NGOs were divided over the procedures that they should follow: lobbying *or* networking? NGO lobbyists would spend much of their time at the site of the official conferences participating in meetings or haunting the hallways around the meetings from which they were excluded. The NGOs more interested in networking, or lacking official accreditation, took advantage of the fertile ground for NGO exchange provided by the forums. The strongest, most active, and most effective lobbying organizations came from the North, while the South, often represented by Latin American groups, spearheaded the NGO networking.[32] In the words of one NGO newspaper, writing about Rio, "the Africans were watching, the Asians listening, the Latin Americans talking while the North Americans and Europeans were doing business."[33] In general, lobbyists' and the networkers' repertoires were mutually interdependent, although not always harmonious.

Each side of this division was split on its views of the other. Some on each side viewed both roles—accepting the boundaries set by governments and pushing them—as necessary complements. Others had much more negative views. For example, although lobbyists at Rio made a concerted effort to represent a wide range of geographical positions, some of them saw new participants, who tended to focus on networking, as "lost in the process," distracting, and, above all, potentially threatening the access of all NGOs to the conference process.[34] Some of the networkers saw the lobbyists as legitimating an illegitimate process and wasting time and resources on useless governmental proposals.[35] Many of these individuals did participate in some of the lobbying ac-

[32] We discuss North-South tensions between NGOs later in the paper in "Unaligned NGO Frames."

[33] *Terra Viva*, June 15, 1992, in *Earth Summit: The NGO Archives* (hereafter cited as *Earth Summit*), CD-ROM (Montevideo, Uraguay: NGONET, 1995). This CD-ROM contains primary documents pertaining to the Rio conference. Where possible, dates and pages cited are from the original documents.

[34] Centre for Applied Studies in International Organizations, "Report on the Participation of Non-Governmental Organizations in the Preparatory Process of the United Nations Conference on Environment and Development," August 1992, 10, in *Earth Summit* (fn. 33).

[35] For one version of this argument, see Matthias Finger, "Environmental NGOs in the UNCED Process," in T. Princen and M. Finger, eds., *Environmental NGO in World Politics: Linking the Local and the Global* (London and New York: Routledge, 1994).

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tivities, but they tended to spend more time discussing issues that had been left off the governmental agenda. They set up various kinds of NGO-meets-NGO activities, like dialogues between Northern and Southern NGOs. Unlike the lobbyists, networkers justified these alliances as ends in themselves rather than as strategies to influence governments.

NGO Lobbying: Expanding the Official Repertoire

NGOs began to push for an additional set of both state-focused and parallel procedures at the early conferences, notably at the Stockholm environmental conference in 1972. But the strategic innovations came in the later conferences. NGOs in all of the issue areas expanded their procedural repertoire in the 1990s; the women's NGOs were especially creative. *Many of the same NGOs, even small ones, attended multiple* conferences. This suggests that cross-mobilizations and cross-references between the conferences may be an elusive source of regularity in NGO repertoires. Some of the shared lobbying strategies across conferences included: participating in preparatory processes at the national and regional level; coordinating lobbying on a daily basis at—and between—the official meetings; circulating information through conference-based newspapers; and increasing contact with official delegates and media representatives.

At Rio, environmental NGOs used several different strategies for influencing their official conferences. Many of them participated in their national and regional preparatory processes, following the UN General Assembly's directive to national governments to include NGOs.[36] A few were even included as members of their national delegation to the official conference processes, giving them unprecedented access to and information about the conference negotiations. The vast majority of NGOs, however, followed the process from a greater distance. They were allowed to distribute proposals and even speak at conference sessions—but only where and when governmental delegates permitted it.

These lobbyists began their days at the UNCED conferences and PrepComs with a strategy session, where they coordinated lobbying, debriefed each other on the previous day's events, formulated joint interventions, and discussed substantive issues. They set up working groups on each of the agenda issues of the conference and worked at influencing language and country positions on the formal documents. Several daily NGO-edited newspapers provided information on the governmental agenda and negotiations, beginning with the second PrepCom. After the second

[36] UN Resolution 44/228, December 22, 1989.

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PrepCom, the most active NGOs even coordinated their activities in between the various conferences.

A big issue for the environmental lobbyists was how to incorporate the growing stream of NGOs. Only a few dozen NGOs attended the first PrepCom, but participation gradually grew through the process until a total of fourteen hundred NGOs were registered. Many new participants knew little about the process and what had been done so far, why some compromises were necessary, and so on. The lobbyists produced periodic reference books to bring NGO representatives up-to-date. But they worried that uninformed and inexperienced NGOs hampered their own lobbying efforts.

In the Vienna conference process, many of the larger and older human rights NGOs defended the principles of universality, interdependence, and indivisibility from possible retrograde movement while pushing concrete proposals for better implementation of human rights measures. In a division of labor at the Vienna conference itself, the large international NGOs individually advocated particular proposals. For example, Amnesty International revived the idea of a high commissioner for human rights who could oversee an integrated UN response to human rights violations; the International Commission of Jurists advocated the creation of an international tribunal on human rights.[37]

Human rights NGOs also coordinated working groups to discuss lobbying strategies during the official conference in Vienna, but limited access to drafting meetings forced them to seek alternative sources of information. Amnesty International "mounted a constant 'guard' outside the drafting meetings," closely following progress on issues of concern.[38] When NGOs were excluded from drafting meetings, NGO representatives serving on official delegations also began to report regularly to caucuses of their lobbying colleagues, "gaining their input and involvement in turn."[39]

In preparation for the Beijing conference, women's NGOs used all of the repertoires developed at the other conferences and also innovated an additional set of strategies in the 1990s. Because of their experience

[37] "Some Proposals from NGOs for the World Conference," *NGO-Newsletter* (February 1993), in Manfred Nowak, ed., *The World Conference on Human Rights: Vienna, June 1993: The Contribution of NGOs: Reports and Documents* (Vienna: Manz, 1994), 217. The position of high commissioner was not established by the conference but was approved in the following General Assembly session. A tribunal has not been established.

[38] Helena Cook, "Amnesty International at the United Nations." In Willetts (fn. 17), 195.

[39] Felice D. Gaer, "Reality Check: Human Rights NGOs Confront Governments at the UN," in T. G. Weiss and L. Gordenker, eds., *NGOs, the UN, and Global Governance* (Boulder, Colo.: Lynne Rienner, 1996), 59.

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with multiple conferences on their own theme (three instead of one) and of the opportunity to engage in conference procedures on other themes between the 1985 Nairobi and 1995 Beijing conferences on women, women's NGOs were exceptionally well prepared to engage in lobbying. They had been frustrated at conferences during the United Nations Decade for Women (1975–85) because NGOs were neither involved in the crucial drafting of the conference documents nor sufficiently organized at the conferences themselves. Women improved their lobbying in three ways between Nairobi and Beijing. First, they built coalitions through a caucus mechanism. Second, they participated early and often in preparatory meetings and in the development of new preparatory strategies. Third, they increased contact with the media and national delegations.

Women developed many of those innovations at the UN conferences on other issues. Before Rio, the Women's Environment and Development Organization (WEDO) sponsored the largest-ever NGO preparatory conference for a UN meeting, with fifteen hundred attendees. It resulted in the Women's Action Agenda 21, a gender-sensitive lobbying document based on the official conference document drafts. One of the most important mechanisms to come out of the UNCED process was the establishment of the Women's Caucus, a lobbying group (with specific task forces) to channel women's demands at UN conference processes. It applied what became the highly successful strategy of assembling precedent-setting information from previous UN documents to show how women's positions were built on accepted norms within the UN, not new rights. Whereas individual NGOs had been limited in the past to presenting single position papers and lobbying individual official delegates, the Women's Caucus presented joint concerns to the conference as a whole.[40]

Before the Vienna human rights conference, women's NGOs and human rights organizations formed the Global Campaign for Women's Human Rights. This group of ninety NGOs focused on violence against women as a global human rights issue, working to make it a special theme of the conference.[41] The Global Campaign's efforts culminated at the NGO forum with a Tribunal on Violations of Women's Human Rights, where women presented testimony of human rights abuses to a

[40] Martha Alter Chen, "Engendering World Conferences: The International Women's Movement and the UN," in Weiss and Gordenker (fn. 39).

[41] See Charlotte Bunch and Niamh Reilly, *Demanding Accountability: The Global Campaign and Vienna Tribunal for Women's Human Rights* (New Brunswick, N.J.: Center for Women's Global Leadership; New York: UNIFEM, 1994).

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distinguished panel of judges. The Women's Caucus coordinated lobbying on women at Vienna and was able to make six plenary presentations at the official conference.

In advance of Beijing, the women's own conference, women's NGOs used strategies developed at earlier conferences: large numbers participated in preparatory meetings, formed new caucus structures, and negotiated with national delegations. WEDO coordinated a Linkage Caucus to advance gains made by women at prior UN conferences and circulated three advocacy documents that served as the basis for NGO lobbying efforts. In Beijing up to fifty caucuses met daily on conference grounds to discuss lobbying strategies. A group called the *Equipo* ("Team"), which represented the major caucuses, coordinated a daily NGO briefing session. Despite their inability to make statements, NGOs were allowed to attend most of the meetings of the governmental Working Groups that debated the text remaining to be negotiated. Since NGOs were still kept out of many of the smaller, more sensitive negotiations, most lobbying was done in the halls, with more organized caucuses circulating draft language. Longtime working relationships with delegates, particularly NGO members who belonged to official delegations, facilitated communication. In addition, NGOs made fully one-third of the plenary speeches. One area where NGOs led the way was in fulfilling their promise to make Beijing a "Conference of Commitments." Although governments refused to hold themselves accountable in the official document for promises made at the conference, NGOs did so by publicizing every promise made by an official delegate.[42]

Lobbyists at the Beijing official conference, while much more involved and successful than at previous women's conferences, still faced considerable difficulties. As at Rio, veteran lobbyists quickly grew frustrated with the difficulties of absorbing the huge influx of NGOs that had not participated in the preparatory process but now wanted to join the lobbying efforts. The geographical separation between Beijing, the site of the official conference, and its distant suburb of Huairou, the site of the NGO forum, exacerbated the distance between NGOs focused on networking at the forum and those focused on lobbying at the official conference. Moreover, the lobbyists at the official conference, like those at Rio and Vienna, tended to be coordinated by Northern NGOs, who had disproportionate control over NGO resources such as paid personnel, travel funds, data, and computers, as well as the experience required to

[42] WEDO, "A Brief Analysis of the UN Fourth World Conference on Women Beijing Declaration and Platform for Action," November 30, 1995.

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guide lobbying efforts. However, there were concerted efforts to integrate individual representatives of Southern NGOs in lobbying strategies.

GOVERNMENT RESPONSES TO LOBBYING

If established lobbying NGOs had trouble incorporating the rising flood of NGO participants, governments were even less prepared for it. From Rio on, NGOs without ECOSOC consultative status could be authorized for accredited participation in the PrepComs. As a result of this potentially greatly increased access, the PrepComs turned out to be a major arena of contention over NGO participation. During the preparations for all three conferences, there was a Fourth PrepCom phenomenon: at this point in the process, the grudging government inclusion of NGOs changed to exclusion. In each case, the limitations placed on NGOs at the final and arguably most important Fourth PrepCom indicated the degree to which governments were still unwilling to legitimate global civil interactions when they most mattered: during the crucial final stages of drafting the conference documents.

For Rio, the level of NGO admission to the official environmental conference process diminished over the course of preparations. At the early PrepComs, where the discussions focused on procedures, the meetings were formal and NGOs had access.[43] As the actual summit approached, meetings became substantive and informal, with less NGO access. NGOs' access to task-oriented working groups at the PrepComs varied. At the Third Prepcom for Rio, even the working groups that had been most liberal in terms of NGO access decided in the last week to close out NGOs at the Fourth Prepcom, ostensibly to speed negotiations. The narrowing of participatory opportunities coincided with an increase in the number of NGOs seeking to participate as the conference drew nearer, leaving many frustrated.

NGOs were also marginalized at the Fourth PrepCom for the World Conference on Human Rights at Vienna. Their initial participatory rights included the opportunity to observe, submit written statements, and make oral statements at the discretion of committee chairs.[44] But at the Fourth PrepCom in April 1993, where governments were unable to

[43] In the preparatory process for the Rio conference and others, the official meetings received one of three designations, which provided for different levels of NGO participation. "Formal" meetings, with governmental statements for the record, allowed NGOs to be present, to give presentations if asked or allowed by the chair of the meeting, and to lobby. "Formal informal" meetings allowed the presence of NGOs at the discretion of the chair. "Informal" meetings involved many kinds of gatherings. Most of the actual governmental negotiating sessions were scheduled as officially informal meetings, meaning that NGOs had no systematic access to them.

[44] "The Role of Nongovernmental Organizations," *NGO-Newsletter* (October 1992), in Nowak (fn. 37), 208.

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complete the task of drafting a final statement in preparation for the conference, Asian governments led an unabashed effort to limit the NGO participation in drafting sessions at the upcoming conference itself. In a compromise, NGOs were permitted to observe plenary sessions and make presentations to the drafting committee but were excluded from even observing actual drafting.[45] Access to the drafting committee would have permitted NGOs to observe the different positions of the various governments but now they were effectively excluded from meetings where the real work occurred.[46]

Exclusion also characterized the later stages of the Beijing preparatory process and threatened to mar the World Conference on Women itself. In the General Assembly resolution on NGO accreditation for the preparatory process, the degree of governmental ambivalence was indicated by the fact that NGO participation in the official conference was not mentioned.[47] At the Fourth PrepCom in New York in March 1995, NGOs were again effectively excluded from many closed discussions of the conference document. The conference secretary-general, Gertrude Mongella, was said to have described the arrangements as a situation in which "the delegates, as hosts, invited the NGOs into their sitting room, but then disappeared into the kitchen to cook, keeping their guests waiting and hungry."[48] NGOs then lobbied their own governmental delegations to the concurrent ECOSOC meetings. In an unprecedented use of its assembly procedures, ECOSOC challenged the conference delegations' exclusion of NGOs. Meeting in New York, it adopted a declaration on the matter halfway through the Fourth PrepCom that extended the NGO application period for accreditation, gave NGOs the chance to appeal denials, and held that the rules for NGO participation at the Beijing conference should match those of the PrepComs.[49]

To varying degrees, the governmental obstacles to NGO participation at drafting sessions continued throughout the official conferences themselves. Accredited NGO representatives did have access to some of the larger working group sessions set up to hammer out the remaining differences over issues in the final documents left unresolved in the preparatory process. But as with the PrepComs, the more delicate the negotiations, the more exclusionary the meetings. NGOs rarely were able

[45] Fateh Azzam, "Non-Governmental Organizations and the UN World Conference on Human Rights," *The Review of the International Commission of Jurists* 50 (1993), 95.
[46] Cook (fn. 38), 192.
[47] UN Resolution 48/108, December 20, 1993.
[48] *Earth Negotiations Bulletin*, April 10, 1995, online.
[49] E/CN.6/1995/L.20, April 10, 1995.

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to attend the so-called "informal" sessions at which the most contentious language was argued over by those countries with the most at stake.

NGO Networking: Expanding the Parallel Repertoire

Beyond efforts to influence official positions, a separate and often complementary NGO strategy is networking, which takes place at parallel NGO forums accompanying official government proceedings. Like other accredited forms of NGO conference participation, NGO forums grew in organization and scope in the 1990s.

The parallel repertoire of NGOs could be summarized as NGO-to-NGO policy discussion supplemented by informal networking. Each NGO forum produced its own formal statement, had its own program and newspaper (or newspapers), and offered a multitude of activities for daily visitors. Workshops and other participatory activities and educational displays formed part of the common repertoire of NGOs. At Rio, computer records tallied 450,000 daily visitors over the fourteen-day celebration.[50] Participants selected from a program that included 350 scheduled meetings and even more informal gatherings. Visitors could also watch the official daily conference proceedings on closed-circuit television. In Vienna, groups crowded the halls of the ground floor of the Austria Centre with their displays and overflowed into an adjoining outdoor pavilion. According to one estimate, approximately 255 NGOs held about 400 parallel events at Vienna, in which nearly 3,000 people participated.[51] NGO workshops vied with one another for inadequate meeting space, with double booking of rooms and a lack of chairs a frequent problem. Beijing showed a dramatic proliferation in the number of forum activities over previous women's conferences. Every forum associated with the women's conferences held workshops whose numbers (and issues) increased astonishingly at Beijing. At Mexico City (1975) there were 192 sessions in all; at Copenhagen (1980), 900; at Nairobi (1985), 1,200; and at Beijing, 3,340, an average of 371 sessions per day.[52]

Government Responses to Networking

The arrangements for the parallel conferences depended as much on the politics of the host country and UN politics as on the efficacy of the

[50] *Brundtland Bulletin* 16 (July 1992), 8, in *Earth Summit* (fn. 33).

[51] Manfred Nowak and Ingeborg Schwartz, "Introduction: The Contribution of Non-Governmental Organizations," in Nowak (fn. 37), 5, 7.

[52] Fraser (fn. 22), 60, 147, 199; Esther Ngan-ling Chow, "Making Waves, Moving Mountains: Reflections on Beijing '95 and Beyond," *Signs* 22, no. 1 (1996), 187.

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NGO planning committees. As a result, even NGO networking could not proceed free from state interference. The human rights NGO forum was conveniently held at the Austria Centre, where the official conference also met. However, four days before the start of the NGO forum on human rights, the UN decided that the forum program could not be used as printed because it contained country-specific events at which individual countries would be subject to criticism.[53] This would have violated the UN taboo against overt criticisms of member governments at UN-sponsored events.

In contrast, it was the Chinese government itself that threatened to throw planning for the women's forum off course. In moves that observers attributed to a fear of radical activism and criticism of its human rights record,[54] the government not only delayed visas for many participants in the women's NGO forum until the last minute (or later) but also switched the site of the forum from Beijing to Huairou a mere four months before the conference. The switch was justified by the dubious claim that the Beijing site could not support the expected number of participants. The new site, an hour's drive from the capital, was never finished, did not provide meeting spaces that could accommodate more than 1,500 people at a time, and located meeting rooms far from each other or in flimsy tents that collapsed under the constant rain.[55] Many participants complained that the NGO coordinating committee had not been sufficiently proactive to prevent the move.

The Rio forum experienced less geographical trouble. Although its parallel conference site was also an hour's trip from the official conference, its setting was the much more congenial and centrally located Atlantic beaches of Rio de Janeiro. Nonetheless, this forum was dogged by financial problems. A budget deficit of $2 million almost stopped the forum as suppliers demanded payment, and one organizer was accused of diverting $1.7 million to his own organization.[56]

In sum, NGOs broadened their repertoires for participating in the UN conference processes, establishing a relatively shared notion of "civil" procedure. But the new civil openness was arbitrary and unstable. NGO privileges and substantive access were trimmed at the whims of governments. For Rio, the trimming went on as preparations progressed, while the Vienna preparations exhibited a fairly stable openness until the last PrepCom considered upcoming conference privileges. At Bei-

[53] NGO Parallel Activities," *NGO-Newsletter* (July 1993), in Nowak (fn. 37), 225.

[54] Wang Zheng, "A Historic Turning Point for the Women's Movement in China," *Signs* 22, no. 1 (1996), 196.

[55] See Robin Morgan, "The NGO Forum: Good News and Bad," *Women's Studies Quarterly* 24 (Spring–Summer 1996).

[56] International Press Center, Press Release, no. 160, June 8, 1992, in *Earth Summit* (fn. 33).

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jing, ECOSOC resolution procedures external to, yet binding upon, the conference proceedings were used to protect the gains that had been made. Thus states excluded NGOs from negotiation over the most important formal outcomes of the conferences—the final statements—and hindered NGO-to-NGO interaction. The changes from the 1970s to the 1990s notwithstanding, governments still treated NGOs with a significant degree of incivility.

Global Society? The Substance of NGO Participation

Despite the undeniable profusion of nongovernmental actors and activities at UN conferences, there is little consensus on the long-term consequences of these global interactions on the substance of international politics. Observers disagree on the merits, significance, and desirability of NGO activities. In this section, we evaluate the ways the participants frame or interpret NGO participation and the substantive content of their participation. First, we assess the extent to which NGOs themselves have constructed shared frames—or find themselves acting "socially"—with regard to the nature of their role and the substance of their issues. That framing is based on considerable agreement, though "unaligned" frames remain to some degree based on geographical (and geostrategic) differences. Second, we analyze the governmental framing of the NGO role and state-society relations, as shown in the official conference documents and in governments' treatment of NGOs. This framing continues to manifest state dominance over key sovereignty-related issues, casting doubt on whether states and NGOs find themselves in the same global society.

NGO Frames on Global State-Society Relations: Government Monitoring

In over three decades of participation in UN issue conferences, NGOs have fashioned one clear shared presumption about their participation: they have come to see themselves as an irreplaceable part of the conference process. Their importance resides in their role as monitors of governments perceived as unlikely or unable to resolve global problems. In the issue areas of the environment, human rights, and women, NGOs view governments as among the causes of current problems, but themselves as part of the solution. As the Vienna NGO forum report concluded, "In the face of government action or duplicity . . . it was up to NGOs to take a stronger stand."[57]

[57] "Addendum 2 to the final report of the NGO-Forum, UN Document A/Conf.157/7/Add 2 of 24 June 1993," and "Analytical Report of Working Group A," in Nowak (fn. 37), 105.

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For most NGOs, this conclusion led to the corollary that governments need to be monitored by NGOs. The frame has long been shared by human rights NGOs, which was evident in the preparations for Vienna. Amnesty International, for example, adopted the assertive theme "Our World: Our Rights" for its publicity materials, and prior to the fourth PrepCom, circulated a strongly worded yet sophisticated proposal for reform of the existing system of human rights protection.[58] At other conferences as well, the monitoring frame motivated both NGO-to-government activity and NGO-to-NGO exchange, with lobbyists seeing their presence as necessary to prod governments to take positions they would not otherwise take and with networkers offering their parallel conferences as alternatives to governmental conferences that glossed over key issues. Both kinds of participants also saw their continued activism as critical for holding governments accountable at home for the promises they made at the conferences.

The rise in the sheer number of NGO participants attests to the emergence of the government-monitoring frame among NGOs in all issue areas. Tens of thousands of participants spent time and money that showed commitment to action at the level of global processes. Further evidence is provided by the fact that since the conferences in the 1990s, NGOs have shown a commitment to following up on the promises they and governments made at their conferences. Human rights NGOs were quick to criticize governments for the modest achievements of the Vienna conference.[59] WEDO issued its first report on government commitments a year after Beijing.[60] Environmental NGO were a critical audience for the five-year review in 1997 of the Rio conference's Agenda 21 achievements.

An issue of some importance that arises when considering the government monitoring capacity of NGOs is, nor surprisingly, how autonomous NGOs are from their governments. Many governments offered some form of support for NGOs, from allowing NGO participation on governmental delegations to providing funding for national NGO conferences and NGO travel to particular international confer-

[58] Compare the three-page statement by Amnesty International, "Our World: Our Rights," *AI Index*: IOR 41/19/92 (December 1992), with "World Conference on Human Rights: Facing Up to the Failures," *AI Index*: IOR 41/16/92 (December 1992), the 39-page document issued the same month by Amnesty International.

[59] A contrast between many governments' sense of relief after the Vienna conference and NGOs' strident criticisms appears in Markus Schmidt, "What Happened to the 'Spirit of Vienna'? The Follow-up to the Vienna Declaration and Programme of Action and the Mandate of the UN High Commissioner for Human Rights," *Nordic Journal of International Law* 64 (1995), 599.

[60] WEDO, *Beyond Promises: Governments in Motion One Year after the Beijing Women's Conference* (New York: WEDO, 1996).

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ences.[61] Such support brings with it the possibility of compromising NGOs' independence and is often debated among NGO participants. It also indicates, however, that governments may be accepting certain roles for NGOs.

The more serious threat of wholly government-sponsored NGOs has also become a subject of debate. Rules governing ECOSOC consultative status prohibit such groups, but some states have taken advantage of the relaxed rules for affiliation with UN conferences. Countries such as China have either declared party organs (such as the All China Women's Federation) to be NGOs or established new organizations (such as the Human Rights Society of China) in order to participate in the NGO forums at international UN conferences.[62] These GONGOs (government-organized NGOs) are regarded with suspicion by NGOs that fear government encroachment on their relatively autonomous arenas of debate. But even this move can be seen as reflecting the increasing strength of NGO activity, to the point where governments feel a need to monitor it from within.

NGO Frames on Substantive Issues

A common NGO agenda may also be formed if the substantive concerns and frames developed by NGOs within an issue area are incorporated by NGOs into other issue areas. We find two levels of frame alignment. On the one hand, there are close two-way connections between women's issues and each of the other two issues. On the other hand, environmentalists and human rights activists, while not antagonistic, have done less to incorporate each other's concerns into their own more specific agendas at global conferences.

One result of framing NGO activity in terms of global civil society is to note that steps toward mutual agenda formation taken by nonstate actors have their own rewards, whether or not they have an impact on state actors. Yet we also find that there are important differences in experience and goals among NGOs that fall roughly along geographical lines. North-South differences and concomitant differences of philosophy remain a significant source of "unaligned" NGO frames, or social division.[63] These differences suggest that the globality of global civil society is still somewhat tentative, even when states are left out of the equation.

[61] Centre for Applied Studies in International Organizations (fn. 34), 26.

[62] See Frank Ching, "Is It an NGO, or a GONGO?" *Far Eastern Economic Review*, July 7, 1994, 34.

[63] This finding contradicts Wapner's expectation that his analysis of the parallel activities of Northern NGOs on the environmental front could be extended to all NGOs. Wapner (fn. 5), 316.

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The earliest documented conference link between environmentalists and women's activists was in 1982, when the United Nations Environment Program (UNEP) held a special meeting in Nairobi to evaluate the achievements of Stockholm, ten years after that conference. Although the meeting was not a global conference on the scale of Stockholm or Rio, about one hundred NGOs took part. A women's caucus met twice and established a network "to increase the involvement of women's organizations in environmental issues."[64] The ongoing caucus raised women's issues for environmentalists at the 1982 meeting and then immediately followed up by raising environmental issues at the women's conference in Nairobi three years later. The caucus was aided by environmentalists from the Environment Liaison Centre International (ELCI), an international organization of environmental NGOs permanently located in Nairobi.

After a decade of such cross-mobilizations, the 1990s conferences show quite a bit of mutual influence. In their final documents at the 1992 meeting, environmental NGOs stressed the specific needs and resources of women, while women made environmental justice one of the rallying cries of the Beijing forum. The women's tent at Rio, Planeta Femea, was always among the most crowded,[65] and environmentalists and indigenous activists organized busy workshops at Beijing. Many participating NGOs, such as WEDO, blurred the distinction between environmental and women's NGOs by supporting both issue areas.

Similar kinds of ties have also developed between human rights activists and women's rights activists. Ongoing relationships between key players within large human rights groups and women's rights activists in different countries had solidified in the late 1980s. This fostered the "mainstreaming" of women's rights within human rights discourse and action, leading to the emergence of the movement for women's human rights.[66]

Women's organizing at Vienna was mirrored in the preparations of human rights organizations for the Beijing Conference on Women. To coincide with the Beijing conference, two major international human rights organizations staged campaigns and issued publications on women's human rights.[67] By this time, "women's rights as human rights"

[64] "ELCI Global Meeting on Environment and Development for NGO-Nairobi," in *Earth Summit* (fn. 34).

[65] Centre for Applied Studies in International Negotiations, "NGO Activities at the United Nations Conference on Environment and Development and the Global Forum," 25, in *Earth Summit* (fn. 34). About fifteen hundred people registered at the women's tent.

[66] Elisabeth Friedman, "Women's Human Rights: The Emergence of a Movement," in J. Peters and A. Wolper, eds., *Women's Rights, Human Rights: International Feminist Perspectives* (New York: Routledge, 1995), 25–27.

[67] Amnesty International published a book on women's rights in March 1995 at the launch of a campaign on women's rights in the lead-up to Beijing. Amnesty International, *Human Rights Are*

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had become a dominant frame for NGOs in both issue networks. The NGO documents from both conferences show substantial cross-fertilization.

The connections are much looser between environmentalists and human rights activists. At environmental conferences, indigenous activists have been the most frequent users of rights language. "Human Rights and International Law," for example, was the first section of the final document of the World Conference of Indigenous Peoples on Territory, Environment, and Development, held in Rio immediately before the UN conference.[68] Other NGO declarations written during various parts of the environmental NGO forum included few references to human rights. In less formal activities, the Sierra Club Legal Defense Fund sponsored an all-day seminar on human rights and the environment at Rio.

Conversely, the atmosphere of attack on basic human rights assumptions at Vienna was not conducive to an ambitious expansion of the concept of human rights. Human rights NGOs on the lobbying front anticipated the difficulties and steeled themselves to defend existing rights.[69] Some environmental issues pertaining to the right to development were considered at Vienna, but no working group at Vienna's NGO forum focused solely on environmental issues.

Unaligned NGO Frames

Using the language of "frames" draws attention to the fact that the substantive content of particular issues in world politics is not simply inherent in the issue but is constructed by the participants involved. Understandings of the philosophical and procedural content of human rights claims changed considerably between 1968 and 1993, and the same can be said of environmental protection and women's rights. Although NGOs share many frames and definitions, they have also actively disputed meanings with each other. One of the ironies of the global conference phenomenon is that by bringing together so many divergent NGOs, conferences also provide a forum for NGOs to discover their disagreements. Perhaps the sharpest divisions among NGOs are along geographical lines, with Northern and Southern NGOs prioritizing different aspects of these issues. However, airing differences within a particular conference, or across several conferences, can result in further under-

Women's Right (New York: Amnesty International, 1995). Human Rights Watch began a research and monitoring project on women's human rights in 1990 and published the results of its five years of work in 1995. Human Rights Watch Women's Rights Project, *The Human Rights Watch Global Report on Women's Human Rights* (New York: Human Rights Watch, 1995).

[68] Kari-Oca Declaration of the World Conference of Indigenous Peoples on Territory, Environment and Development, May 25–30, 1992, Kari-Oca (Rio de Janeiro), Brazil, in *Earth Summit* (fn. 34).

[69] Alan Riding, "Bleak Assessment as Rights Meeting Nears," *New York Times*, April 25, 1993, 11.

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standing and collaboration among NGOs, even those from very different national contexts.

The experiences of NGOs at the Rio conference illustrate the types of struggles over frame alignment that may occur during the conference process. Northern NGOs were disproportionately involved in the early preparations for the Rio conference, lobbying official delegates on the conference agenda. This agenda reflected many of the traditional environmental concerns of the North, stressing specific sources of pollution or resources in need of preservation. When Southern NGOs showed up in larger numbers at the third PrepCom, they disrupted this lobbying by focusing on issues on the periphery of the official agenda, such as the ways in which international debt and multinational corporations contributed to environmental degradation. One Northern NGO reported after the Rio conference that issues dividing Northern and Southern NGOs included Southern assertions of national sovereignty over decision making and resources versus Northern support for a global decision-making body and the concept of a global "common heritage of resources."[70] On these issues, some NGOs had more in common with their home governments than with each other.

At the same time, the final conclusion of this report stresses the ways in which NGOs gradually aligned their environmental frames through the remaining PrepComs and the actual Rio conference. The experiences of trying to work together across traditional divides, and the raised awareness among Northern environmental NGOs of issues of concern to Southern NGOs and of development issues generally, may change the way NGOs work in the future. Some Northern NGOs simply picked up the rhetoric of the development debate, but others began changing their policies in response to what they learned through the UNCED.[71] While differences on many of these issues remain among NGOs, the North/South divide was less neatly defined after Rio than before.

North/South divisions characterized the women's conferences in the beginning as well. The repeated encounters and growing experience in negotiation made possible by the four women's conferences resulted, however, in the blurring of what had been a sharp dividing line. The timing of the conferences was also a factor: as the tensions among nations fostered during the cold war receded from the mid-seventies to the mid-nineties, so too did the tensions between Northern and Southern women.

[70] Centre for Applied Studies in International Negotiations Issues and Non-Governmental Organizations Programme (fn. 34), 16.

[71] Ibid., 11.

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At Mexico City, women from the South were more concerned about development and imperialism, whereas women from the North focused on sexism to the exclusion of other political considerations.[72] At Copenhagen the conference-wide debate over whether to declare Zionism as a form of apartheid was reflected in the near-pitched battles fought among NGO representatives. But the ever-growing web of women's connections that were developed over the course of the Decade on Women resulted in more agreement on issues of common concern. In the area of development in particular, interaction between Northern and Southern feminists became increasingly fruitful. By Beijing, women from all regions had found international economic policies increasing their daily responsibilities—although Southern women connected economic issues to problems such as gender-based violence, while Northern women tended to consider such issues separately.[73]

In contrast, at Vienna the North/South divide was not a central issue among NGOs. One commentator remarked on the "depth of common understanding" of values, goals, and policies "expressed by human rights activists from both the South and the North of the world."[74] The evidence suggests that NGOs developed this common understanding before the preparations began for the Vienna conference. By 1993 Latin American NGOs in particular were strong advocates of civil and political rights, with experience advocating such rights in international forums. Although one might expect Southern NGOs to be stronger proponents of economic, social, and cultural rights, as well as the right to development, the importance of such claims is widely recognized even by the larger Northern-based NGOs that tend to have the most experience at the UN. For example, the International Commission of Jurists, based in Geneva and dedicated to promoting human rights as a manifestation of the rule of law, determined in 1959 that the rule of law included economic justice; in 1986 the organization helped to promote UN recognition of the right to development. Amnesty International also recognizes the interdependence and indivisibility of all human rights.[75]

[72] Stephenson (fn. 25), 143.

[73] Charlotte Bunch, Mallika Dutt, and Susana Fried, "Beijing '95: A Global Referendum on the Human Rights of Women" (Manuscript, Center for Women's Global Leadership, Rutgers University, n.d.).

[74] Kevin Boyle, "Stock-taking on Human Rights: The World Conference on Human Rights, Vienna 1993," *Political Studies* 43 (1995), 91.

[75] On the International Commission of Jurists, see William J. Butler, "A Global Advocate of Freedom," *In Memoriam: Niall MacDermot*, sp. ed., *The Review of the International Commission of Jurists* no. 57 (1996), 20; Ustinia Dolgopol, "Niall MacDermot, A Life Exemplifying Courage and Vision," *In Memoriam: Niall MacDermot*, sp. ed., *The Review of the International Commission of Jurists*, no. 57 (1996), 34; and Howard Tolley, *The International Commission of Jurists: Global Advocates for Human Rights* (Philadelphia: University of Pennsylvania Press, 1994), 144–45. On Amnesty International, see Amnesty International, "Statute of Amnesty International," *Amnesty International Report 1997* (London: Amnesty International Publications, 1997), 355.

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With the universality of human rights under attack at the Vienna conference, NGOs set aside any remaining differences over extending the human rights agenda. Efforts to defend the universality of rights and to create stronger monitoring powers were "strongly supported by delegates from over 1,000 nongovernmental organizations, many from Asia, who dismiss the third world's 'relativist' arguments as nothing more than excuses for authoritarian regimes."[76] Contrary to participants' forecasts, there was little evidence of a North/South split at Vienna over the right to development.[77] The unity of Southern and Northern NGOs at Vienna in favor of limits to national sovereignty contrasted with the Southern NGOs' defense of sovereignty at the Rio conference.

This evidence suggests that although NGOs disagree among themselves on many issues, the North/South divide may not always be the most important source of conflict. In all conferences, this divide partially overlaps more persistent divisions between the newer generation of small grassroots organizations focused on local action and the more professional, often larger and older, organizations with long-standing activities at the United Nations.[78] These divisions lead to the differences in repertoire already noted but are also reflected in different substantive orientations. Much as they tend to work within the established mechanisms for NGO participation,[79] older NGOs tend to follow the substantive agenda of the United Nations more closely than do the newer ones.

Governmental Frames on Global State-Society Relations

Governments retain the ability to respond selectively to the new NGO frames, adopting some and firmly rejecting others. After half a decade of global conferencing with active NGO participation, we identify lingering differences between governmental and NGO frames on their re-

[76] Alan Riding, "Human Rights: The West Gets Some Tough Questions," *New York Times*, June 20, 1993, 4:5.

[77] "Vienna: A Search for Common Ground," *UN Chronicle* 30, no. 3 (1993), 59.

[78] Nowak and Schwartz estimate that over 70 percent of NGOs at Vienna were small Southern NGOs participating at the global level for the first time. Nowak and Schwartz (fn. 51), 8. According to a survey of five hundred NGOs that "go to, or wish to go to UN conferences in the 1990s," 76 percent felt "restricted" by larger NGOs; 75 percent by English-language NGOs; and 71 percent by Northern NGOs. Benchmark Environmental Consulting, *Democratic Global Governance: Report of the 1995 Benchmark Survey of NGOs* (Oslo: Royal Ministry of Foreign Affairs, 1996) 26–28. See also Gaer (fn. 39), 58.

[79] Peter Uvin makes the point that Southern NGOs have a good deal to gain from cooperating with larger Northern NGOs. "Third World NGOs increasingly attempt to link up with Northern INGOs [international NGOs] in order to influence rich country governments. . . . Northern INGOs increasingly serve as lobbyists for their Southern partners, working with them to promote policy change at the summit." Uvin, "Scaling Up the Grassroots and Scaling Down the Summit: The Relations between Third World NGOs and the UN," in Weiss and Gordenker (fn. 39), 167.

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lations. While governments have agreed to a certain level of NGO involvement at the international level, they still bar NGO participation in procedures or issues that in some way restrict state sovereignty. States do not yet agree with NGOs over the substance of global society.

How did governments respond to NGOs' central claim of importance as global actors? On its face, the evidence supports the argument that governments have recognized that NGOs form a new part of global society. The contrasts between the documents of the earliest and latest conferences are especially telling. In all three issue areas, NGOs were virtually ignored at the earlier conferences, meriting only a passing comment in conference documents. In the 1990s, all three sets of final governmental documents found extensive roles for NGOs, who are expected to implement, educate, and even help formulate new approaches to all the issues. The UNCED final document dedicates an entire chapter to the role of NGOs, while NGO references are integrated throughout the Vienna Declaration and the final Beijing document. The new Commission on Sustainable Development, created at Rio, also finds a place for NGO participation.[80]

Despite this language, governments were in fact seriously divided over the issue of NGOs' role at both the conferences themselves and in global politics more generally. The clash came in the "promising but difficult marriage of an essentially American model of democratic lobbying and a forum [the UN] with a built-in democratic deficit," wrote an observer of the women's Fourth PrepCom.[81] Even governments accustomed to American-style lobbying at home drew limits to the roles of NGOs abroad, although developing countries took the lead in excluding NGOs.

Governments did not entirely accept the new NGO frame on the global significance of NGO importance, maintaining their own dominant role, especially at home. The most common kind of reference to NGOs in the Rio conference's Agenda 21 depicts NGOs as secondary collaborators with states, as in this example: "The United Nations . . . in cooperation with Member States and with appropriate international and non-governmental organizations, should make poverty alleviation a major priority."[82] Other language in the documents also reasserts the central role of nation-states. Mark Imber notes that "whereas the Stockholm Declaration postponed the party-pooping affirmation of

[80] Mark Imber, *Environment, Security and UN Reform* (New York: St. Martin's, 1994), 102.
[81] *Earth Negotiations Bulletin*, April 10, 1995, online.
[82] United Nations, *Report of the United Nations Conference on Environment and Development*, annex II, agenda 21, principle 3.10, in United Nations A/Conf.151/26/Rev. 1, vol. 1, 1993, 32.

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states-rights until paragraph 21, the Rio Declaration affirms national rights over resources in paragraph 2."[83] This affirmation is backed up with a shift in the language from that of "man's" to "states" responsibility for the environment. In Beijing, religious fundamentalist governments attempted to assert their religious and cultural sovereignty over both NGOs and international organizations, succeeding to a limited extent in enshrining such sovereignty in the final document.[84] At Vienna, while the principle of the universality of human rights was upheld, governments waffled on protections for human rights NGOs at the national level. The final document from the 1993 World Conference on Human Rights cites national law as the relevant standard for the protection of NGO activities, a move that was seen by NGOs as a setback for the impartial application of international standards of human rights.[85] In summary, many governments acknowledge that NGOs have a new role to play in global politics but most resist the full implications of NGO membership in global civil society.

The conference-based struggles to define the limits of global civil society have had an impact beyond the conference arena. The 1996 revision of the terms of NGO consultative status within ECOSOC reflects the progress of, as well as the remaining obstacles to, NGO access to official UN business.[86] The new rules continue to confine NGO consultative status to ECOSOC rather than to the entire General Assembly, and NGOs may not circulate written statements as official documents or play "a negotiating role" at conferences.[87]

However, several changes reflecting the growth of NGO participation in conference processes indicate government acceptance of NGO importance and strength. First, more NGOs are allowed to participate in the consultative and conference processes. In contrast to earlier stipulations, regional and national NGOs' participation is now actively solicited, particularly from countries with developing economies.[88]

[83] Imber (fn. 80).

[84] See "Report of the Fourth World Conference on Women, Held in Beijing from 4 to 5 September 1995; Including the Agenda, the Beijing Declaration and the Platform for Action (Extract)"—and Country Reservations—in *The United Nations and The Advancement of Women 1945–1996* (New York: United Nations Department of Public Information, 1996).

[85] Michael Posner and Candy Whittome, "The Status of Human Rights NGOs," *Columbia Human Rights Law Review* 269 (1994), 283, as excerpted in Henry J. Steiner and Philip Alston, eds., *International Human Rights in Context* (Oxford: Clarendon, 1996), 491.

[86] ECOSOC Resolution 1996/31 (July 25, 1996) replaces ECOSOC Resolution 1296 (1968), which formerly governed NGO consultative status.

[87] Willetts points to a document (Decision 1/1) that indicated such restrictions during the Rio preparatory process and seems to have been incorporated into Resolution 1996/31. Willetts (fn. 30), 74–75.

[88] ECOSOC Resolution 1996/31, July 25, 1996, paragraphs 5, 6, 7, 20.

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Second, conference and preparatory process participation rules have been eased. In language borrowed directly from the resolution on women's participation at Beijing (Resolution 48/108), rules have been adopted to expedite NGO inclusion and assure continuing NGO participation in conference follow-up. An entirely new section has been added extending UN Secretariat support to facilitate the wider range of activities in which NGOs are now involved.[89]

One way to assess the diffusion of shared-issue definitions among NGOs and governments and thus the creation of a global society is to look for documentary evidence of the impact of NGOs that mobilized for the first time at conferences outside their own issue areas, for example, women participating at human rights or environment conferences. We refer to such impact as "cross-fertilization." If evidence of cross-fertilization shows up at conferences where NGOs rather than governments have linked concerns across issue areas, we contend that it can plausibly be attributed to the growth of global civil society.

Indeed, impressive evidence of women's cross-fertilization appears in the documents of Rio and Vienna. Women and women's concerns are thoroughly absent from the various documents of Stockholm. The words *women* or *woman* never appear, and the generic *man* is the main actor. Population issues receive ample attention, but even so there is no suggestion that women bear children. Women do not appear in the first agenda for Rio but were added to the final agenda only at the Third PrepCom, after a large women's lobbying group showed up at the Second PrepCom.[90] Women lobbied for the Women's Agenda 21, which detailed the language about women to be used, and they largely succeeded. Observers also counted women as the most successful NGO coalition at Vienna, remarking that they were able to get whole paragraphs on women's rights and violence against women into the final document.[91] In contrast, a single resolution had referred to women in the Tehran Final Act.[92] Women were also successful at their own conference, with some 67 percent of NGO recommendations on controversial text eventually incorporated into the final document.[93]

Environmentalists and human rights activists did not form the same kind of united front at any of the conferences, and there is less evidence

[89] Ibid., section IX, paragraphs 68–70.

[90] Centre for Applied Studies in International Negotiations, "Report on the Participation of NGOs," 26, in *Earth Summit* (fn. 33).

[91] Azzam (fn. 45), 95; David B. Ottaway, "Women Having Their Way at Rights Conference," *Washington Post*, June 17, 1993, A39.

[92] UN Document A/Conf.32/41 (fn. 19), part 3, res. 9.

[93] WEDO (fn. 42), cover letter.

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of cross-fertilization on their issues. There is some coincidence between the presence of environmental NGOs at the women's conference in Nairobi and the fact that it was the first women's conference that produced a document with an entire special section on the environment. The Vienna document adopted the language of sustainability when discussing the right to development for the first time.[94] Based on these conferences, the evidence suggests that NGOs making a concerted effort to lobby across conferences may achieve more than if they lobby exclusively at their own conferences. The experiences of women indicate that influencing governments may even be easier at conferences on other issues. One reason may be that at a conference on a specific issue, both proponents and opponents are mobilized, while only one side may mobilize for a conference on a seemingly unrelated issue. For example, religious fundamentalists mobilized for the population and women's conferences but largely ignored the environmental conference, and so women faced less opposition there.

Strikingly, NGOs were systematically unable to influence governments on a set of issues that remained remarkably consistent among all of the conferences from 1968 to 1995. Governments rejected NGO challenges to two key nation-state prerogatives: the choice of economic development models and any reference to national militaries. While developing states had objected most strongly to any expansion of the NGO role, developed states also exercised their vetoes on economic and military issues. The United States, the European Union (EU), Canada, and Australia, all defenders of NGOs, were the key negotiators who objected to a paragraph on the "responsibility of states for environmental damage caused by weapons of mass destruction" in Rio's Agenda 21.[95] The United States and the EU played key roles at both Rio and Beijing in opposing language that questioned dominant economic models.[96] At Vienna, strong NGO statements about the "compatibility" of structural adjustment programs and human rights precepts were not reflected in the final governmental documents.[97]

In addition, with the growth of attention focused on issues of gender equality through the women's conferences, this arena also has become

[94] UN Document A/Conf.157/23, "Vienna Declaration and Programme of Action," June 25, 1993, part I, para. 11.

[95] *EESI Earth Summit Update*, no. 8, April 1991, 8. See also *Earth Summit Bulletin*, June 16, 1992.

[96] *Earth Negotiations Bulletin*, March 1995 and September 1995.

[97] See Manfred Nowak, "Written Report by the General Rapporteur, Manfred Nowak, as adopted by the Final Plenary Session of the NGO-Forum," UN Document A/Conf.157/7, June 14, 1993, part D, para. 3, in Nowak (fn. 37), 83.

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one in which certain states assert claims to national (often cultural or religious) sovereignty. At Beijing, representatives of the Holy See, Guatemala, Honduras, Argentina, Malta, Sudan, and Iran frequently used the language of sovereignty to object to certain formulations of women's and girls' rights that they saw as somehow undermining family or national cohesion and morality. When unsuccessful at blocking the inclusion of such rights, they then placed limitations on them when signing the final conference document.

Conclusion

There is no denying that NGOs are on the world stage to stay. Their presence and issues form an integral part of UN thematic conferences. They have advanced shared agendas through NGO-to-NGO networking at UN forums. Moreover, governmental frames have clearly been realigned in the 1990s to recognize a broader role for NGOs and some of their substantive innovations at global conferences. To varying degrees, governments and the UN as an organization permit or facilitate NGO participation in the conferences and rely on their assistance with implementing conference agreements. New rules for NGOs' UN consultative status institutionalize some of the gains made in the 1990s conferences.

It is too soon, however, to declare that a global civil society has definitively emerged. Table 3 summarizes the uneven achievement of global civil society as compared with the expectations generated from our initial theorizing of the concept. Thousands of new NGOs have come together in a truly global groundswell of activity to lobby and network at UN conferences. Taken as a whole, however, our empirical findings lead us to conclude that for nongovernmental organizations, as well as for states, the differences between North and South, rich and poor, developed and less developed, still mark contentious political territory.

NGOs' shared procedural repertoires attest to the civil nature of their activities. New rules facilitate their expanded participation. Greater overall interaction is in evidence, much of it in the form of greater NGO-to-NGO contacts. Governments, however, do not perceive such interaction as highly significant. While new rules have been developed, they have not had the nonarbitrary quality characteristic of theories of domestic civil society. NGOs have been shut out of the most crucial stage of conference planning (the Fourth PrepCom phenomenon) and are given subordinate roles in conference documents. Some governments have placed obstacles to NGO networking during conferences.

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TABLE 3
GLOBAL CIVIL SOCIETY
EXPECTED CHARACTERISTICS AND EMPIRICAL FINDINGS

Term	*Expected Characteristics*	*Empirical Findings*
Global	Increase in the number of participating NGOs; balanced geographical representation	Significant numerical increase but skewed geographical representation; imbalance still favors Northern NGOs
Civil	New rules facilitating NGO access and participation; new ways of participation (repertoires); greater overall interaction among NGOs and between NGOs and governments	New rules, but NGO repertoires met by state-imposed, sometimes arbitrary limits; greater interaction among NGOs; but amount of NGO-state interaction circumscribed by states
Society	Development of mutual understandings (frames) regarding expected behavior and substance, both among NGOs and between NGOs and governments	Ongoing development of mutual understandings among NGOs; lack of shared NGO-state frames; sovereignty claims pose significant obstacles to substantive NGO-state agreement

We do find evidence of a deepening society of global NGOs. While NGOs continue to disagree on some specific substantive issues, they do so in a context of intense interaction and debates that places value on their interrelationship. Ongoing interactions between NGOs have also helped to narrow the distance between them on substantive issues. But NGOs' interactions alone are not enough to establish the existence of a global society, and states only provisionally accept NGOs' contributions to UN conference processes. Governments are standing firm in their claims to ultimate sovereignty over the issues that seem to most affect their ability to control the distribution of power and resources, whether at home or abroad. Military defense and models of economic development are not negotiable. Moreover, certain countries see gender relations as yet another arena to block challenges to nation-state prerogatives. The substantive content of the three topics do potentially impose different limitations on these prerogatives. In further research we hope to generalize further about the comparative relationship between issue characteristics and states' responses to NGOs.

Government responses do correspond in some ways to the patterns of NGO mobilizations, with more responsiveness where NGOs are more

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visible. Responsiveness, however, does not necessarily mean acceptance of NGO perspectives. When NGOs do seek to engage states, most states seem to respond by calculating their interests rather than by cultivating a relationship with NGOs. On the one hand, states have an incentive to respond positively to NGO efforts to participate in intergovernmental forums: they can act as representatives of popular opinion or as informed observers on governance issues at the international level, as well as help governments in the implementation of international agreements. On the other hand, NGOs demand of governments resources and principled action that governments may not willingly provide or undertake. On issues that centrally address state sovereignty, more NGO visibility only means a more forceful negative response. In the final analysis, even new kinds of global conferences on new global issues with new global participants remain partially imprisoned by traditional roles and priorities of international politics. State sovereignty sets the limits of global civil society.

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POLITICAL CAPITAL
Mexican Financial Policy under Salinas

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INTRODUCTION

ONE of the central arguments for undertaking market reform in developing countries is to improve economic efficiency and prevent privileged groups from obtaining rents from the policy-making process. Yet this prescription fails to address the complex political process that governments are likely to confront when moving toward the market. This study shows how political considerations distorted the reform process in the Mexican financial sector. I describe and explain two policy outcomes that contradicted President Carlos Salinas's aggressive promotion of market principles in the 1990s: the protection of banks from competition and the artificial overvaluation of the currency through exchange-rate intervention. I argue that these policy contradictions are best understood as a coherent response to the electoral challenges confronting the Institutional Revolutionary Party (PRI) at the end of the 1980s.

Mexican financial policy offers an ideal case for exploring the extent to which the liberalization process may be politically manipulated. The finance sector itself is often considered to be a natural refuge for the economic bureaucracy. Policy analysts believe that the highly technical nature and arcane jargon of financial policy help insulate an elite group of technocrats from public scrutiny.[1] The complexity of finance makes it difficult for interest groups to understand how policy reform may affect their economic welfare, much less to make well-focused regulatory demands.

In addition, political scientists have argued that the Mexican state enjoys an unusual degree of autonomy; it is largely shielded from social

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[1] Eric Helleiner, *States and the Reemergence of Global Finance* (Ithaca, N.Y.: Cornell University Press, 1994), 203–5; Steven K. Vogel, *Freer Markets, More Rules: Regulatory Reform in Advanced Industrial Countries* (Ithaca, N.Y.: Cornell University Press, 1996).

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interests seeking special benefits or privileges. When in the 1980s the country's political leaders adopted a neoliberal economic strategy, the dominant PRI was able to marginalize the social opposition to market reform. The strong Mexican state afforded technocrats considerable freedom to impose painful market solutions.[2] In short, if economic liberalization could be consistently implemented anywhere in the developing world, there was good reason to expect it to be in Mexico, particularly in the area of finance.

Yet this was not the case. Not only did Mexican finance policy provide rent-seeking opportunities to the private sector, but it also increased the state's capacity to finance politically motivated public sector obligations. This study seeks to explain why the self-consciously reformist Salinas administration protected banks and steadily overvalued the currency, policies that flagrantly undermined market discipline and economic stability. This is not to argue that Mexican liberalization was a fraud: between 1985 and 1992 the government dramatically reduced barriers to trade and investment, balanced the budget, and sold off hundreds of state-owned enterprises. However, while the IMF and global investment community lauded these achievements, they paid little attention to the state's disturbing presence in financial markets.

The main argument herein is that the state turned to financial policy largely as a response to the threat posed by Mexico's increasingly democratic political environment. The ruling party pursued financial policies that were inconsistent with market principles and macroeconomic stability, in order to generate the capital required to address the erosion of political support among diverse constituencies. While the PRI continued to enjoy a high degree of autonomy in the actual implementation of policy through the early 1990s—the economic bureaucracy was composed entirely of PRI officials—it could no longer be assured of victory at the polls. The left-leaning National Democratic Front (FDN) had almost beaten Salinas in the 1988 presidential election, while the center-right National Action Party (PAN) had also increased its electoral appeal significantly. Because the emergence of a viable political opposition coincided with the most vigorous phase of Mexican eco-

[2] Blanca Heredia, "Making Economic Reform Politically Viable: The Mexican Experience," in William Smith, Carlos H. Acuña, and Eduardo A. Gamarra, eds., *Democracy, Markets, and Structural Reform in Latin America* (Miami, Fla.: North-South Center Press, University of Miami, 1994), 270–79; Miguel Angel Centeno, *Democracy within Reason: Technocratic Revolution in Mexico* (University Park: Pennsylvania State University Press, 1994), 232; Wayne A. Cornelius, Judith Gentleman, and Peter H. Smith, *Mexico's Alternative Political Futures* (San Diego, Calif.: Center for U.S.-Mexican Studies, 1989); Andrew Reding, "Mexico under Salinas: A Facade of Reform," *World Policy Journal* 6 (Spring 1989).

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nomic liberalization, political leaders could not rely on traditional means, such as unrestrained deficit spending, to allocate goods to core constituents. Accordingly, when electoral alternatives threatened the PRI's ability to rule, the party responded by using financial policy to provide economic goods that would generate renewed social support.

The strategic allocation of benefits is nothing new in Mexican politics. After its successful struggle to organize and secure the support of labor, peasants, and business in the 1930s, the PRI supplemented symbolic and political goods with tangible economic benefits. It managed its corporatist alliance through clientelism, "a relationship based on political subordination in exchange for material rewards."[3] The PRI thus became the consummate political machine, offering loyal supporters money, jobs, favors, and help in circumventing bureaucratic obstacles.

Many observers have recognized the political content of Salinas's economic reforms. Some have suggested that liberalization was the means by which the PRI sought to maintain the confidence of the private sector.[4] Others have maintained that much of the reform agenda was simply part of the PRI's strategy to ensure its continued domination. Salinas's notorious $25 million-a-plate donation lunch in February 1993 confirmed the widespread belief that the president had turned over control of the economy to business elites in exchange for unlimited campaign funding.[5] Deeper state-society analyses suggested that the PRI rewarded those interests which supported the new economic program while it marginalized its opponents.[6]

Although there is no question that big business did extraordinarily well under Salinas, continuing to cater to only this small constituency would not have made much sense in an increasingly democratic environment. Moreover, perhaps because of the PRI's successful history of authoritarianism and co-optation, there is a tendency to assume that it

[3] Jonathan Fox, "The Difficult Transition from Clientelism to Citizenship: Lessons from Mexico," *World Politics* 46 (January 1994), 153; Nora Hamilton, *The Limits of State Autonomy: Post-Revolutionary Mexico* (Princeton: Princeton University Press, 1982); Ruth Berins Collier and David Collier, *Shaping the Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America* (Princeton: Princeton University Press, 1991); Wayne A. Cornelius, "Nation-Building, Participation and Distribution: The Politics of Social Reform under Cárdenas," in Gabriel Almond, Scott Flanagan, and Robert Mundt, eds., *Crisis, Choice and Change: Historical Studies of Political Development* (Boston: Little, Brown, 1973).

[4] See Francisco Valdés Ugalde, "From Bank Nationalization to State Reform: Business and the New Mexican Order," in Cook, Middlebrook, and Molinar, eds., *The Politics of Economic Restructuring: State-Society Relations and Regime Change in Mexico* (San Diego, Calif.: Center for U.S.-Mexican Studies, 1994); Judith Teichman, "The Mexican State and the Political Implications of Economic Restructuring," *Latin American Perspectives* 19 (Spring 1992).

[5] See Geri Smith, "A Tear in Mexico's Curtain of Democracy," *Business Week* (March 23, 1993), 47.

[6] Guy Poitras and Raymond Robinson, "The Politics of NAFTA in Mexico," *Journal of Interamerican Studies and World Affairs* 36 (Spring 1994).

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orchestrates all social action, elevating cooperative winners and isolating losers at will. Once the possibility of electoral defeat became real, however, the ruling party scrambled to respond to these losers. The social agenda underlying Salinas's policy initiatives has thus been highly inclusive.

One of the main conclusions of this study is that the PRI did not end the allocation of rents in the 1990s. Although Salinas himself routinely asserted his desire for genuine political reform,[7] earning plaudits both at home and abroad for his modernizing vision of Mexican state-society relations, his policy record as president belies the PRI's traditional agenda and methods. What is often ignored in economic analyses of the Salinas administration is that targeted payoffs to social groups continued to be an integral part of the ruling party's strategy for retaining political supremacy. Largely because it sought ways to materially compensate diverse social constituencies—including entrepreneurs, the middle class, and the poor—the government implemented important changes in financial regulation that undermined its declared neoliberal priorities.

The Mexican experience also suggests broader implications for the relationship between political and economic change in developing countries. Most importantly, the impact that Mexico's incipient political opening had on financial policy-making in the 1990s suggests that it is unwise to analyze marketization and democratization as isolated events. While there has been considerable interest in the optimal sequencing of this dual transition—China and Russia having convinced most observers that painful market reforms should probably precede democratic opening—researchers have tended to ask only whether or not political constraints prevent governments from undertaking liberalization, which they identify as balancing the budget, privatization, and the elimination of barriers to trade and investment.

What the Salinas case demonstrates is that even when the market-reform process is implemented at the highest levels, it is likely to be distorted by the government's need to satisfy constituents and maintain a cohesive social base. It shows that political priorities can lead even a highly insulated and ideologically orthodox government to manipulate the policy agenda of the economic transition in order to maximize its appeal to mass constituencies that have genuine electoral options.

[7] During his candidacy Salinas angered many old-guard politicians by declaring his approval of the end of the PRI's monopoly, while as president he frequently stated publicly that the party's days of clientelism and patronage were numbered. See Juan Molinar and Jeffrey Weldon, "Elecciones de 1988 en México: Crisis del autoritarismo," *Revista Mexicana de Sociologia* 52 (October–December 1990), 230–31; Cornelius, Gentleman, and Smith (fn. 2), 14–36.

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Alternative Explanations

The political hypothesis advanced in this study stands in contrast to conventional explanations emphasizing institutional ideology, interest-group pressure, and international change. A number of scholars have explained finance policy outcomes, particularly in developing countries, as the result of technocratic change. According to this approach, changes in the direction of national economic policy can be traced to the ideological orientation of personnel in top government positions, and the power shifts in the institutions they control.[8] In the case of Mexico, following the failure of the statist model, a new generation of policymakers was nurtured within the world's premier academic institutions abroad, where they were groomed for high-level appointments in public service.[9]

The technocratic revolution goes a long way toward explaining economic liberalization in Latin America. Moreover, the research provides convincing political explanations for the placement of liberal economists in positions of policy-making power. However, they cannot account for ideological contradictions within this elite group. Although the top positions in Mexico's government were occupied by economically orthodox Ph.Ds, these administrators chose to eschew market-oriented principles in the critical financial policy areas explored in this study.

A second group of scholars has argued that financial globalization, made possible by technological advances in computerization and communication, led a wide range of countries to liberalize capital markets from the 1970s to the 1990s. They maintain that structural forces of internationalization and technology are relentlessly driving the world's financial systems toward integration. While global firms seek financing from a limited pool of international savings, increased corporate multinationality enables firms to exit national borders more easily. Similarly, governments compete among themselves to obtain sufficient capital to satisfy domestic demands for social services, promote investment, and sustain a stable economic environment.[10]

[8] See Kathryn Sikkink, *Ideas and Institutions: Developmentalism in Brazil and Argentina* (Ithaca, N.Y.: Cornell University Press, 1991).

[9] The *técnicos* emerged as highly skilled, insulated economic bureaucrats who took over the policy-making process from old-guard *políticos*. See Peter Smith, "Leadership and Change: Intellectuals and Technocrats in Mexico," in Roderic Camp, ed., *Mexico's Political Stability: The Next Five Years* (Boulder, Colo.: Westview Press, 1986); Juan D. Lindau, "Schisms in the Mexican Political Elite and the Technocratic/Politician Typology," *Mexican Studies/Estudios Mexicanos* 8 (Summer 1992), 217; Miguel Angel Centeno and Sylvia Maxfield, "The Marriage of Finance and Order: Changes in the Mexican Political Elite," *Journal of Latin American Studies* 24 (February 1992), 83–84.

[10] John B. Goodman and Louis W. Pauly. "The Obsolescence of Capital Controls? Economic Management in an Age of Global Markets," *World Politics* 46 (October 1993), 57–58; Helleiner (fn. 1), 160; Vogel (fn. 1), 1996.

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A World Bank economist concludes that because of the importance of ensuring adequate public and private sector financing, the most important function of the central bank in developing countries is "to promote financial innovations that widen and deepen the credit or capital market through the introduction of new processes and products."[11] In his elaboration of the "competition state," Philip Cerny explains the recent wave of financial opening as a "defensive" response to the scarcity of global capital. In this formulation, the move toward free financial markets is not the result of interest group politics. "Instead," as he writes, "the state takes the leading role in imposing a far reaching set of reforms, starting with the legalization of new financial instruments."[12]

While compelling, the globalization paradigm suffers from its theoretical elegance. Because it explains the uniform outcome of deregulation, the theory does not account for those markets that continue to restrict capital movements or for the different levels of openness among countries that have liberalized them. The model is also limited by its narrow definition of finance regulation; it addresses only the (admittedly important) policy dimension of capital mobility and does not even address the significant question of variation in other financial policy areas.[13]

Missing from both the technocratic and the globalization models is politics. A third, more satisfying approach to explaining finance policy focuses on the struggle among diverse economic groups. In this analysis, political leaders are influenced by the demands of competing organized interests, which support or oppose the liberalization of capital markets according to their ability to capture benefits or their vulnerability to increased competitive pressure.[14] Borrowing the concept of asset specificity from transaction-cost economics, Frieden predicts that those capitalists with the most redeployable assets—finance capital—should support capital-market liberalization, while those whose assets are tied to a specific use, particularly heavy industry, are expected to

[11] V. V. Bhatt, *Financial Innovation and Credit Market Development*, Working Paper WPS 52 (Washington, D.C.: World Bank, August 1989), 16.

[12] For example, when the U.S. innovated short-term debt securities to finance its deficit in the 1980s, countries all over the world followed suit to remain attractive to global investors. See Philip G. Cerny, "Financial Market Deregulation and the Competition State" (Discussion paper, American Political Science Association, Washington, D.C., September 1988), 43–46.

[13] Elsewhere among Latin America and Asian reformers, exchange rates today range from fixed to floating, while foreign bank penetration varies from less than 5 percent in Indonesia and Taiwan, to about 10 percent in Mexico and Brazil and almost 25 percent in Chile and Argentina. See "How Far Is Down?" *Economist* (November 15, 1997), 20.

[14] See especially Stephan Haggard and Sylvia Maxfield, "The Political Economy of Capital Account Liberalization," in Helmut Reisen and Bernard Fischer, eds., *Financial Opening: Policy Issues and Experiences in Developing Countries* (Paris: OECD, 1993).

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oppose it.[15] This research agenda represents an advance in the political study of finance policy, in that it takes seriously the power of organized domestic groups.

Nonetheless, focusing on interest-group assets is not likely to explain outcomes in banking and currency policy. While traditional economic demands, such as tax, wage, and social spending levels, are relatively easy to identify, the *financial* interests of different economic actors are difficult to determine ex ante. Moreover, Frieden's model fails to capture the nature of economic structures within a typical developing country. When banks and manufacturers are linked by cross-ownership and even run by the same families, the interests of large industrial firms cannot be neatly separated out from those of financial firms. Indeed, even the traditional struggle between domestic and international producers over exchange-rate valuation can become meaningless within an industrial structure in which the firms that sell the most abroad also buy the most foreign goods. In such an economy, when weak national currency stimulates exports only at the expense of more costly imported inputs, an interest group policy preference is not obvious. Moreover, to the extent that major manufacturers are financed with foreign capital, a weaker currency increases the debt burden.

Notwithstanding these limitations, both the globalization and the interest-group models provide a foundation upon which to build an empirically informed explanation of policy-making. However, because financial regulation among liberalizing countries varies greatly, one must avoid the temptation to look for a universal causal variable. The argument that follows suggests that in order to understand the nature of financial reforms in developing countries, one must first understand the particular political challenges facing their leaders. Rather than an inevitable outcome of ideological shifts or global capitalism, finance policy represents a resource that the state can manipulate to address the interests of those domestic groups on which it depends for political survival.

The Political Context of the 1990s

In 1983 the social historian Lorenzo Meyer speculated that Mexico's economic crisis might force policy changes that could endanger the PRI's social alliance. "If those elements of populism which still remain in Mexico's political system, that is, its minimal redistributive elements, were effectively eliminated, the political elite would then have to seek other bases for their legitimacy or be prepared to rely more openly on

[15] Jeffry A. Frieden, "Invested Interests: The Politics of National Economic Policies in a World of Global Finance," *International Organization* 45 (Fall 1991), 440–41.

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force."[16] Scholars have assessed the damage that market reforms caused traditional patronage relations between the state and its social allies, particularly labor and agriculture.[17] As Ruth Collier argues, even though the PRI possessed the political resources to implement and endure the neoliberal transition in the short term, the breakdown of its traditional corporatist alliance forced the party to recast its social bases of support.

By the 1988 elections public disgust with six years of painful adjustments, stagnation, and instability had taken their toll. According to official figures, which many believe overstate the level of PRI support, the ruling party lost over twenty points between the 1982 and 1988 elections. The damage done by eroding living standards during the debt crisis enabled the opposition to gain a significant share of voters for the first time. Moreover, as a result of Salinas's questionable victory, in which he narrowly defeated the FDN's Cuauthémoc Cárdenas amid widespread vote-counting irregularities, massive civic opposition became an important constraint on future electoral fraud.[18]

Groups the PRI had depended on to remake its bases of social support defected in massive numbers in 1988. The ruling party concurred with this assessment. Shortly after his inauguration, Salinas openly acknowledged the need to create new alliances and partnerships in order to ensure political survival.[19]

Among the economic groups courted by the PRI, the urban middle class and small business were priority targets. Those with higher incomes and levels of education not only wielded considerable voting strength but also represented what sociologist Soledad Loaeza has called the most important political reference group for the rest of Mexican society.[20] Reflecting upon the social cost of economic crisis during the 1980s, Meyer warned that the "systematic containment of consumption in the middle classes cannot continue."[21]

Although the PAN did not win significantly more of the vote in 1988

[16] Lorenzo Meyer, "Mexico: The Political Problems of Economic Stabilization," in Donald L. Wyman, ed., *Mexico's Economic Crisis: Challenges and Opportunities* (San Diego, Calif.: Center for U.S.-Mexican Studies, 1983), 122.

[17] On labor relations, see Ruth Berins Collier, *The Contradictory Alliance: State-Labor Relations and Regime Change in Mexico* (Berkeley: International and Area Studies, 1992); Enrique de la Garza Toledo, "The Restructuring of State-Labor Relations in Mexico," in Cook, Middlebrook, and Molinar (fn. 4).

[18] José Antonio Crespo, "Crisis Económica: Crisis de Legitimidad," in Carlos Bazdresch et al., eds., *México: Auge, crisis y ajuste* (Mexico City: Fondo de Cultura Económica, 1992), 31.

[19] Cornelius, Gentleman, and Smith (fn. 2), 27–28.

[20] Soledad Loaeza and Claudio Stern, eds., *Las clases medias en la coyuntura actual* (Mexico City: Centro de Estudios Sociales, Colegio de México, 1990).

[21] Meyer (fn. 16), 121–22.

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than it did in the previous election, its gains among Mexico's more urban, educated, professional voters suggested a disturbing trend for the PRI.[22] An analysis of polling data from 1989 showed that "the most exaggerated relationship is between college-educated voters and preference for the PAN."[23] Alonso Lujambio, former director of the political science department at the Mexican Autonomous Technological Institute (ITAM) and electoral counselor at Mexico's Federal Election Institute, stated: "Prior to the 1988 election empirical evidence on voter income and preference is scarce. However, it seems apparent that the economic crisis that erupted in 1982 and its effect on social mobility caused the middle class, which had enormous expectations of permanent improvement, to become frustrated, and they assumed an increasingly critical position against the postrevolutionary regime."[24]

Moreover, the PRI was losing support among the country's millions of small businessmen. Throughout the crisis-ridden 1980s, it was unable to "overcome the tensions with the private sector and diminish their growing support for the PAN." By the end of the decade the ruling party was "fearing the further rise" of National Action.[25] Between 1983 and 1987 entrepreneurial support for the PRI fell from 51 percent to 32 percent, with the PAN picking up virtually all defectors.[26]

An even greater and more immediate electoral challenge was the leftist appeal among Mexico's poor.[27] Lacking any kind of formal representative institution, Mexico's growing legions of unemployed and impoverished citizens threatened the party's claim to revolutionary legitimacy. Living in sprawling slums on the outskirts of the capital and in tens of thousands of rural municipalities around the country, Mexico's poor survived largely through the informal economy, virtually forgotten by the local PRI machines. Campaigning aggressively in urban slums, poor rural communities, and impoverished blue-collar neighborhoods, FDN leaders accused the PRI of abandoning the social principles of the revolution. Their old-style populism posed a bold and successful challenge to the legitimacy of the ruling party. The degree of support Cuauthémoc Cárdenas received in 1988 among the popular

[22] See Molinar and Weldon (fn. 7); Roderic Ai Camp, *Politics in Mexico* (New York: Oxford University Press, 1993); N. Patrick Peritore and Ana Karina Peritore, "Cleavage and Polarization in Mexico's Ruling Party," *Journal of Developing Areas* 28 (October 1993), 72–73.

[23] Highly educated Mexicans voted for the PAN at twice the national average; see Camp (fn. 22), 81.

[24] Author interview, Mexico City, December 10, 1998.

[25] Stephen D. Morris, *Political Reformism in Mexico* (Boulder, Colo.: Lynne Rienner, 1995), 72.

[26] Miguel Basañez, *El pulso de los sexenios: 20 años de crisis en México* (Mexico City: Siglo Veiniuno, 1990), 225–29.

[27] For the success of neo-cardenismo among the popular sectors, see Tonatiuh Guillén López, "The Social Bases of the PRI," in Cornelius, Gentleman, and Smith (fn. 2), 256–58.

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sectors previously loyal to the PRI suggested that the strategy was paying off.[28]

How serious were the opposition's gains? Reflecting on the "pincer effect" of urban, educated votes going to the PAN and rural, poor votes going to the PRD, two election analysts concluded: "It would be difficult to exaggerate the relevance of this change. . . . [T]he consolidation of these tendencies would undoubtedly be devastating for PRI hegemony, because they form the bases for an electoral defeat, unless the party reconstitutes its electoral profile."[29] According to political scientist Roderic Camp, "Long-term development trends . . . tend to favor the opposition, not the government's party. . . . Although none of the opposition parties yet has the strength to best the PRI nationally . . . [t]he time will come when one of them, or some new opposition party, will effectively contest for primacy among the electorate."[30]

Finally, while Salinas focused on recovering votes his party had lost in 1988, he was equally committed to preserving the partnership with powerful business interests. The central pillar of PRI social and financial support and the backbone of the neoliberal agenda, the multinational financial-industrial elite was considered the only group capable of fulfilling the developmental objectives of economic integration.[31] Large manufacturers, distributors, and bankers not only presided over the country's most dynamic growth sectors, but they also served as the primary source of investment capital and foreign exchange, the lifeblood of Salinas's market reforms. By designing financial policy to channel rents to big business, the PRI sought to deepen its alliance with the private sector actors who supported the new, outward-oriented economic strategy.

In sum, Salinas confronted the most daunting political and economic challenge in his party's history. To ensure the PRI's future viability, his administration had six short years not just to recover macroeconomic stability but also to achieve tangible and visible results for diverse and divided interests.

Finance Policy Cases

The PRI needed an economic mechanism with which to appease middle-class and poor voters, who now had real party alternatives; it also

[28] Kathleen Bruhn, "Social Spending and Political Support: The 'Lessons' of the National Solidarity Program in Mexico," *Comparative Politics* 28 (January 1996), 155.

[29] Molinar and Weldon (fn. 7), 252.

[30] Camp (fn. 22), 156–57.

[31] Not coincidentally, this group had bought virtually the entire banking system. See Fernando Ortega Pizarro, "El proyecto económico de México," *Proceso* (September 9, 1991), 24–27.

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sought to preserve the commitment of big business. Unable to pursue traditional populist solutions, which typically called for fiscal stimulus, the government turned to the financial sector to generate resources to satisfy large and socially disparate constituencies. The remainder of this study explains how the PRI used banking and exchange-rate policy to recover its political dominance.

Privatization and Protection

On May 2, 1990, President Salinas announced: "Today it is time to modify the exclusive state property of the bank, because the circumstances that motivated the [nationalization] project have changed." He then charged the Congress to reverse the constitutional changes with which President López Portillo had nationalized the banks eight years earlier. Notwithstanding opposition on the left, the initiative received the support of every PRI lawmaker. Furthermore, given that reprivatization had long been one of the PAN's demands, it was ideologically difficult for the rightist opposition to oppose the measure.

The reprivatization of the Mexican banks was one of the largest and most complex sales of public assets in the history of the developing world. The government took painstaking steps to ensure adequate information and transparency in highly visible public auctions. Between June 1991 and July 1992 the government sold off eighteen banks. Financial holding companies and brokerage firms, which had made their fortunes in the 1980s from the profitability of public lending and the stock-market boom, bought fourteen of them.

The most notable feature of reprivatization was the very high price paid. While typical U.S. and European banks sell for about 2.2 times book value, Mexican banks were sold at a remarkable average of over 3.5 times book value, netting the government over $12 billion. Several buyers were so eager to own a bank that they leveraged their purchases by borrowing abroad.[32]

One of the keys to making bids competitive was the decision to sell the banks in small "packages," rather than all at once.[33] This kept the number of bidders high for all but the largest banks. A breakdown of the bidding process suggests that collusion was not a factor: as ex-

[32] For example, J. P Morgan floated a $1 billion bridge loan to the group that successfully bid on Bancomer, Mexico's second-largest bank. See "The High Price of Bank Sell-Offs," *Euromoney Supplement* (January 1992), 20.

[33] Guillermo Ortiz Martínez, *La reforma financiera y la desincorporación bancaria* (Mexico City: Fondo de Cultura Económica, 1994), 220.

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pected, the more bidders, the higher the multiple paid for a bank. Moreover, the smaller (that is, the cheaper) the bank, the more bidders participated, driving up the price of the regional and multiregional institutions. Although the big three also sold for well above the international multiple average, the ratios were lower than for smaller banks.

The bidders were influenced by several factors that suggested robust financial performance. First, the government had returned the banks to life during the nationalization period. By the beginning of Salinas's term the banks had regained solvency, and by 1992 they were profitable.[34] Second, by reducing or abolishing many longtime restrictions on the allocation of bank capital, the government succeeded in making Mexico's financial institutions more attractive to prospective buyers.[35] As a Mexican business writer observed in 1989: "Paradoxically, now, with the new [deregulatory] measures, the state's banking institutions enjoy greater freedom than they had under private ownership."[36]

Third, new legislation promoted the consolidation of banking activities. The 1990 Law for the Regulation of Financial Groups permitted brokerages and banks to operate under the same roof.[37] Finally, financial growth indicators augured well for banking. The banks were sold off from mid-1991 to mid-1992, Mexico's last period of robust expansion. Moreover, both corporate and consumer demand for financial services was expected to explode in the 1990s; with less than 10 percent of the population holding bank accounts, Mexico was "underbanked by almost every measure."[38]

Nonetheless, these factors hardly guaranteed the banks' long-term profitability. Indeed, Mexican economic expansion was quite slow, while the country's low rate of savings set limits on the capital available for

[34] A major reason was that the banks had primarily invested in high-yield, low-risk government securities. See *Economía Mexicana* (1986), 56–57.

[35] A central element of deregulation was the elimination of controls over interest rates. See Robert R. Moore, "The Government Budget Deficit and the Banking System: The Case of Mexico," *Financial Industry Studies* (1993); Ortiz (fn. 33), 297. Selective credit requirements were also eliminated. See Pedro Aspe, *Economic Transformation the Mexican Way* (Cambridge: MIT Press, 1993), 80; Nora Lustig, *Mexico: The Remaking of an Economy* (Washington, D.C.: Brookings Institution, 1992), 108. The reserve requirement, which was eliminated in 1989, dramatically increased credit to the private sector. See Samantha Laurie, "Oxygen of Recovery," *Banker* 140 (April 1990), 50.

[36] Sergio Sarmiento, *El Norte* (April 5, 1989).

[37] A major reason was to enable domestic banks to compete for global capital. See Michael Marray, "Growing Pains," *Euromoney* (September 1992), 148; Aspe (fn. 35), 89. José-Ramon Palencia Gomez, "Evolution of the Mexican Financial System towards a Universal Bank," *Money Affairs* 5, no. 1 (1992); Academia Mexicana de Derecho Bursátil, "Actualización sobre las adiciones a las leyes del mercado de valores y sociedades de inversión" (Mexico City, 1990), 24.

[38] "A Latin Big Bang," Mexico Survey, *Economist* (February 13, 1993), S16; Kenneth Jameson, "The Financial Sector in Latin American Restructuring," in Werner Baer and Melissa H. Birch, eds., *Privatization in Latin America* (London: Praeger, 1994), 126.

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loans. While deregulation and recovery made financial assets relatively more attractive to investors, they were clearly not sufficient to generate the stratospheric bidding levels achieved during the reprivatization.

The extremely high prices reflected the bidders' anticipation of the rents that would be obtained under protectionism. The same Mexican negotiators who conceded significant trade and service concessions in NAFTA fought tenaciously with the United States to guarantee that Mexican banks retained strong protection against foreign competitors.[39] Chapter 14 of NAFTA, which includes the terms for trade and investment in financial services, stipulated strict ceilings on foreign participation in Mexico's financial sector.[40] No U.S. or Canadian bank was allowed to buy a Mexican bank until 1998, and even then foreign acquisitions were to be limited to banks with less than a 4 percent market share. According to a Federal Reserve report, the Mexican strategy allowed "U.S. banks to enter in the phase-in period only in a very limited part of the market."[41] The "free trade" treaty thus ensured that foreign banks would not challenge the position of Mexico's domestic institutions for the foreseeable future: "NAFTA protects the financial sector for a very long time. With this the process of liberalization and globalization will not break the oligopoly power of Mexican commercial banks. It can be concluded that, regarding finance, NAFTA represents essentially a model of financial protection."[42]

While the Mexican government restricted foreign competition in the banking sector, it openly acknowledged the need to increase domestic competition.[43] However, notwithstanding the licensing of a

[39] Antonio Gutiérrez Pérez and Ignacio Perrotini, "Liberalización financiera y estabilización macroeconómica en México: Dasafíos y perspectivas," *Investigación Económica* 209 (July–September 1994); Javier Gavito and Ignacio Trigueros, "Los Efectos del TLC sobre las entidades financieras," in Georgina Kessel, ed., *Lo negociado del TLC* (Mexico City: McGraw-Hill, 1994). Mexico also argued that because American legislation prohibits national retail banking, U.S. branch ownership and "financial group" status would be prohibited. See Rossanna Fuentes, "Serios peligros para el sistema de pagos," *El Financiero* (February 13, 1992), 3; Isabel J. Mayoral, "No modificará EU su legislación bancaria," *Uno Más Uno* (June 12, 1992), 18.

[40] No single U.S. or Canadian banking subsidiary could initially gain a market share larger than 1.5 percent of the total capital. Furthermore, the combined total of all foreign banks could not exceed 8 percent of net capital until the year 2000, after which the ceiling would be raised to 15 percent. By 2004 the banking sector was to be completely liberalized; however, a safeguard clause allowed the Mexican government to extend a grace period to the market share ceiling until 2007 if foreign bank penetration reached 25 percent. See Paul et al., *North American Free Trade Agreement: Summary and Analysis* (New York: Matthew Bender, 1993), 67–72. Following the 1994 peso crisis Zedillo raised market share ceilings in order to provide foreign capital for local and regional banks facing insolvency.

[41] William C. Gruben, John H. Welch, and Jeffrey W. Gunther, "U.S. Banks, Competition and the Mexican Banking System: How Much Will NAFTA Matter?" *Financial Industry Studies* (October 1993).

[42] Gutiérrez Pérez and Perrotini (fn. 39), 93.

[43] "Banca '93: Impulsarán nuevos bancos competencia," *El Norte* (September 6, 1993).

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handful of new banks between 1990 and 1994, banking regulation under Salinas imposed serious barriers to domestic entry. The minimum level of capitalization required to charter a new bank was set at 0.5 percent of combined capital and reserves of the entire banking system. By 1993 that figure represented almost $30 million.[44] As three financial economists concluded, such a sum represents an "ante that would exclude a large proportion of would-be [foreign] entrants . . . capital minimums serve to impede entry and thus competition in the industry without necessarily serving the intended purpose of enhancing institution solvency."[45]

Because of an obscure NAFTA provision that Mexican negotiators had demanded, the capitalization minimum went far beyond discouraging the formation of local banks. The treaty also stipulated that all foreign banks had to enter the Mexican market as chartered national subsidiaries, rather than as branches. Permission to open foreign branch offices would have enabled hundreds of smaller U.S. banks, many located near the Mexican border, simply to invest in a modest building and sufficient staff to serve local credit needs. The requirement that all entrants had to sink such a massive amount of capital represented an insurmountable barrier to many American banks that were otherwise well positioned to compete in Mexico's retail banking market.[46]

Government protection of the banks was motivated by two political goals. The first was straightforward: to cement the PRI's partnership and alliance with Mexico's wealthiest and most powerful capitalists—precisely those who had bought the banks. The second was indirect: by using the windfall from the bank sale for social programs, the PRI sought to recover support from the poor. The chance to earn the gratitude of entrepreneurs as well as a cash windfall for public spending was a political opportunity too attractive to sacrifice in the name of ideology or increased competitiveness.

First, the negotiation of NAFTA's financial services provisions represented the fulfillment of a deal between the government and the new

[44] Alberto Musalem, Dimitri Vittas, and Asli Demirgüç-Kunt, "North American Free Trade Agreement: Issues on Trade in Financial Services for Mexico" (Washington, D.C.: World Bank, 1993). By comparison, charter minimums for American banks are between one and five million dollars.

[45] Robert P. McComb, William C. Gruben, and John H, Welch, "Privatization and Performance in the Mexican Financial Services Industry," *Quarterly Review of Economics and Finance* 34 (Summer 1994), 226.

[46] Gustavo Vega, "NAFTA and Financial Services" in Gustavo del Castillo and Gustavo Vega, eds., *The Politics of Free Trade in North America* (Ottawa: Centre for Trade and Policy Law, 1995); Catherine Mansell, "The Internationalization of the Mexican Financial System" (Paper presented at the Conference on the Global and Comparative Analysis of Financial Institutions, Rockefeller Foundation, Bellagio Conference and Study Center, May 1994), 31.

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bankers. Without the assurance of protection rents, reprivatization would have given the Mexican financial-industrial elite less incentive to offer its allegiance to the ruling party, and bank bids would certainly have been much less enthusiastic. Significant foreign penetration would have meant both reduced market share and downward pressure on interest rates. Just as much of Mexican industry had responded to sudden foreign competition by failing to adjust, it was widely believed that a large part of the long-protected finance sector would be unable to defend its share of the domestic market.

The bankers demanded protection by applying a variation of the nationalist "infant industry" argument to the financial sector. In the past protection of banks had led to inefficiency, which would make Mexican banks vulnerable to foreign pressure should finance markets be opened quickly. They needed time to become internationally competitive and avoid the (unspecified) danger of foreign-controlled banking.

Over a year after the reprivatization, Javier Fernández, strategic director for Bancomer, stated: "We've barely come out of a system that was nationalized for ten years. It would be childish to think that the entire financial system can be transformed in only eighteen months."[47] Shortly following the announcement of the bank reprivatization, the Mexican Bankers' Association (ABM) stated that national control over banks could not be compromised.[48] During financial negotiations, Alfredo Harp Helú, ABM executive and co-owner of Banamex, argued that "we must defend our financial sovereignty and determine up to what point an opening is opportune."[49] Antonio del Valle, director of Banco Internacional and head of the elite Mexican Council of Businessmen, observed with satisfaction that NAFTA's ceiling on foreign participation "allowed the national banks to have a comparative advantage and be able to compete efficiently in the future."[50] Similarly, an executive of Banacci, Mexico's largest financial group, maintained that a rapid financial opening offered Mexican banks "little to gain" and that policy "should consolidate the internal market, in order to become more [internationally] competitive."[51]

After the legal provisions of NAFTA had finally been hammered out, journalists, bureaucrats, academics, and elected officials concurred that

[47] *Excélsior* (October 6, 1993).

[48] Asociación Mexicana de Bancos, "La banca mexicana en transición: Retos y perpectivas," *Comercio Exterior* 41 (February 1990).

[49] *El Financiero* (November 21, 1991), 15.

[50] Janine Rodiles and Mauricio Flores, "Garantiza TLC protección financiera," *El Norte* (August 14, 1992).

[51] *El Financiero* (February 13, 1992), 3.

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protection was the political price of the sale. A leading business writer argued that the high prices paid were the consequence of "[g]uaranteed protection for the privatized banks . . . keeping markets closed for some years allows the recuperation of investment."[52] Another observed that forcing the new banks to compete against foreign rivals "would be seen as violating an explicit or implicit compromise."[53] The director of industrial promotion at the trade ministry acknowledged that "protection was a precondition for selling the banks,"[54] while a PAN congressman remarked that "the condition of protection for the bank sale to go through was common knowledge."[55]

The government publicly attempted to justify protection and the resulting high interest rates as necessary for sustaining adequate capitalization levels.[56] However, when pressed to defend the bank protection on purely technical grounds, a high-ranking finance ministry official stated: "We wanted to keep the payment system in Mexican hands." As for the neoliberal argument that competition would result in a more efficient financial system and lower interest rates, he conceded that "the Mexican team was guided by more subjective criteria. The economic argument in favor of competition is valid."[57]

The PRI's second goal was to broaden its appeal among the poor. Like any government trying to improve its political stature with social side payments, the fiscally orthodox Salinas administration needed money. Because protection enhanced the profit-making potential and therefore the price of the banks, reprivatization provided the government with the extra cash it needed for targeted social programs. The most important of these was the National Program for Solidarity (Pronasol), the federal program that issued block grants for infrastructure and education directly to municipalities. Solidarity was widely characterized by scholars, journalists, and opposition parties as a return to clientelist politics.[58] According to Miguel Angel Centeno, Pronasol was "the core element of the Salinas administration's formula for main-

[52] Arturo Hanono, *Expansión* (December 11, 1991).

[53] Antonio Gershenson, *La Jornada* (February 16, 1992), 5.

[54] Author interview with Julio Alfredo Genel, Mexico City, November 28, 1994.

[55] Author interview with David Vargas, PAN deputy, Cámara de Diputados, Mexico City, March 10, 1995.

[56] See especially Francisco Suárez Dávila, "Liberación, regulación y supervisión del sistema bancario mexicano," *Comercio Exterior* 44 (December 1994).

[57] Author interview, on condition of anonymity, Mexico City, April 4, 1994.

[58] See Denise Dresser, *Neopopulist Solutions to Neoliberal Problems: Mexico's National Solidarity Program* (San Diego, Calif.: Center for U.S.-Mexican Studies, 1991); Wayne A. Cornelius, Ann L. Craig and Jonathan Fox, "Mexico's National Solidarity Program: An Overview," in Cornelius, Craig, and Fox, eds., *Transforming State-Society Relations in Mexico* (San Diego, Calif.: Center for U.S.-Mexican Studies, 1994); Bruhn (fn. 28).

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taining control. . . . [It] was a perfect example of classic PRI tactics, whereby opposition and discontent could be coopted through patronage."[59]

The Salinas administration used the proceeds of Mexico's vast privatization program to fund Solidarity. But of more than two thousand firms eventually sold off to the private sector, the sale of the eighteen banks alone generated over $12 billion. (The 1990 sale of Teléfonos de México, which also enjoyed many years of protection and extremely high profits, also netted the government almost $2 billion.) Technically, virtually all of the money gained through these sell-offs went into a contingency fund (Fondo de Contingencia) to pay off large parts of Mexico's public debt, which was bleeding the treasury of billions of dollars in interest payments. By significantly reducing its debt burden, the government increased its level of discretionary spending for more politically valuable activities.[60] As a Mexican investigator explains, "Employing privatization in this way allowed Mexico to reap larger margins from public savings . . . and direct them toward welfare and growth."[61]

The use of reprivatization revenue for Pronasol was not merely acknowledged by the government: it was a point of pride. "When Mr. Salinas visits communities to dedicate new Solidarity projects, he never fails to mention that the money came from the privatization program."[62] The president's brother Raúl Salinas, then coordinator of Pronasol's System of Evaluation, declared in 1992, "Part of what we get from the bank purchase will of course go to the programs of Solidarity."[63] A government press release describes how cash from reprivatization was used to enable the government to channel more resources to spending programs. "Most of the resources obtained from the bank sales have been applied to debt reduction, allowing the Government to reduce principal as well as interest payments, thus making more resources available to allocate them in social and productive investment."[64] As the president himself declared: "The resources obtained from the ending of state banking will contribute to strengthen the stability of the

[59] Centeno (fn. 2), 65–66.

[60] It is impossible to calculate exactly how much of the bank sale revenue went to Pronasol, because the Mexican government has long kept major items of discretionary spending secret. In December 1997 opposition members of Congress, who accused the PRI of using the budget for political purposes, demanded that President Zedillo make all public spending transparent.

[61] Enrique González Tiburcio, "Social Reform in Mexico: Six Theses on the National Solidarity Program," in Cornelius, Craig, and Fox (fn. 58), 72.

[62] Matt Moffett, "Barrio Brigades," *Wall Street Journal*, January 8, 1993, A7.

[63] Juan Manuel Alvarado, "Usará Pronasol fondo de la venta de bancos," *El Norte* (March 11, 1992).

[64] *Mexico on the Record* (July 1992), 4.

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country's economy, expand long-term development perspectives and attend to the most urgent needs of those who have the least."[65]

By 1993 the government had spent $12 billion on Solidarity programs.[66] It is certainly a coincidence that this figure approximates the sum of capital raised by the bank sale, although even if the banks had been sold without the promise of protection, their sale would have provided the government with a sizable chunk of cash. While Pronasol was not the only reason the government backed bank protection, the windfall received by the government from high bidding prices clearly strengthened the ruling party's efforts to expand politically crucial poverty-abatement programs.

The economic consequences of protecting the newly privatized banking sector were dismal. The financial opening was expected to increase the level and efficiency of investment and provide stability for the banking system. Yet as a result of the high interest rates made possible by protection, Mexico's new bankers were able to make extremely high profits, despite pervasive inefficiency in the financial sector.[67] While the new bankers enjoyed much more freedom in private sector lending, they had virtually no experience with risk analysis. As a result of unrestrained increases in consumer lending and sky-high interest rates, the level of nonperforming loans exploded.[68] Even before the peso crisis hit in December 1994, the rate of default threatened the stability of the banking sector. Over the next two years the government virtually renationalized much of the insolvent banking industry—spending almost 10 percent of GDP for the bailout—in order to ensure adequate capitalization levels.

Nonetheless, although the collapse of the banking sector eventually became a debacle for the PRI, during Salinas's presidency the political fallout from protection was minimal. The main reason was that the groups most harmed by the policy either were politically marginal or could not readily perceive the distributional consequences. Household

[65] Carlos Acosta, "El dinero no viene y Salinas vende casi lo único que quedaba: La banca," *Proceso* (May 7, 1990), 9.

[66] Cornelius, Craig, and Fox (fn. 58).

[67] In 1992 number two Bancomer enjoyed 108 percent growth in profits, while number one Banamex had an 84 percent surge. See Marray (fn. 37), 148–50. See the following examples of the extensive literature on high Mexican bank profits: Geri Smith and Wendy Zellner, "The Gringo Banks Are Drooling," *Business Week* (September 13, 1993), 84; and Alicia Girón, "La banca comercial de México frente al TLC," *Comercio Exterior* 44 (December 1994), 1074. Data obtained from Banamex shareholder reports demonstrated that even a moderate decline in interest rates posed the threat of firm failure. See Ramón Pieza, "Banamex, difícil llegar al bicentenario," *El Financiero* (November 28, 1994), 14A.

[68] See *Expansión* (August 18, 1993), 349; Juanita Darling, "Privatized Mexican Banks Get Ready for Foreign Competition," *Los Angeles Times*, September 8, 1993, D4.

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borrowers, for instance, were constrained by collective action obstacles that inhibit any consumer movement.[69] In addition, middle-class consumers, after ten years of austerity, were delighted with the easy credit offered by the new bankers.[70] During Salinas's term the most salient fact about privatized banks for millions of Mexican consumers was the satisfaction of years of pent-up demand.

Small and medium-size business represented the only organized voice against protection. While most smaller entrepreneurs remained squeezed out of the credit markets, even those qualifying had to pay interest spreads far higher than their counterparts in countries they now had to compete against on the open market.[71] A report by the Center for Development Research (CIDAC), an independent Mexican research institute, concluded that requirements for small business were prohibitively strict: "The present instruments of financing are designed for large firms, limiting access for smaller ones: the requirements are excessive, credit is scarce and expensive, collateral is very high."[72] ANIT, an independent association of small industrialists, complained that limited banking competition denied small firms the opportunity to recapitalize and increase competitiveness.[73] Even the officially linked industry association Canacintra expressed its displeasure. Vice President José Antonio Murra remarked: "It is truly a scandal that the negotiation of financial services didn't consider that the second most important resource of an enterprise—after human capital—is money. We disagree with the lack of credit competition that we have."[74]

However, while their number was large, small businesses did not represent a significant political threat to the PRI. First, the problem itself was difficult to perceive. Because the financial system had been so shallow for so long, utilized mostly by large corporate borrowers, by the

[69] These obstacles were later overcome by outrage and insolvency. In 1995 a national debtors' movement called El Barzón, including hundreds of thousands of consumers, businessmen, and farmers, faced real interest rates of 40 to 50 percent and threatened a moratorium on loan payments until there was some serious relief from the high rates.

[70] In the early 1990s customers applying for the basic credit card at either of the country's largest banks needed to show proof of a salary of only about $335 per month. See Anne Geyer, "Credit Card Surge," *Business Mexico* (June 1991), 4.

[71] In 1992 banks charged businesses real interest rates over 20 percent, three to four times higher than U.S. levels. See Fernando Ortego Pizarro, "La banca quedó en manos de mexicanos, pero muy pocos," *Proceso* (July 13, 1992), 9. Over two years after reprivatization, medium-size firms in Mexico paid 25 percent interest and had difficulty obtaining loans for longer than six months. See Juanita Darling and Chris Kraul, "U.S. Banks Eager to Enter Mexico," *Los Angeles Times,* December 13, 1993, D1. A 1993 study revealed that real interest rates for small industries in Nuevo Leon ranged from 19.8 to 21.5 percent, while the U.S. variation was between 4.5 and 5 percent. Juan Antonio Lara, "Demanda caintra acelerar la compentencia bancaria," *El Norte* (May 21, 1993).

[72] *El Financiero* (October 19, 1992), 40.

[73] *El Financiero* (June 3, 1992), 14.

[74] Carmen Alvarez, "Molesta a empresarios negociación financiera," *El Norte* (October 8, 1992).

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end of Salinas's term less than a quarter of microenterprise had even applied for bank credit in formal markets.[75] Moreover, although loans to small business were scarce and costly, the privatized institutions offered more credit than the nationalized banks had in the previous decade. Second, and more importantly, small business simply did not have much political clout in the 1990s. Its representative association, Canacintra, had been powerless to halt the rapid pace of trade liberalization in the late 1980s. Because of the PRI's control over Canacintra's organizational resources and its ability to shield the association from independent organizations seeking to steal its membership, Salinas was able to prevent the small producers from effectively articulating their opposition to government policies that threatened the interests of its members.[76]

If interest groups did little to oppose bank protection, opposition parties did even less. On the left, the PRD might have been expected to demand economic relief for small producers and portray the financial sector as betraying ordinary Mexicans struggling to make ends meet. However, the party's economic nationalism and suspicion of U.S. domination made it difficult to support selling a major part of the financial sector to foreigners. Financial opening was never put on the PRD presidential platform.[77] On the right, the PAN also failed to make a campaign issue out of bank protection. Although PAN representative David Vargas declared that his party would support a financial opening in principle, when asked why this perspective had not translated into an articulated political position, he explained: "To be frank with you, PAN has not done much research on this issue. We have many other important issues during this election, and this one has not received much attention among our candidates."[78]

Exchange-Rate Policy

During Salinas's first month as president, the fixed exchange rate inherited from the hyperinflationary 1980s was relaxed somewhat when the central bank established a so-called crawling peg, an arrangement under which the Mexican currency could fluctuate daily relative to the

[75] *El Financiero* (December 9, 1994), 30A.

[76] See Diane E. Davis, "Mexico's New Politics: Changing Perspectives on Free Trade," *World Policy Journal* 9 (Fall–Winter 1992), 664–66; Ken Shadlen, "Corporatism and the Associative Logics of Business: Small Industry and the State in Post-Revolutionary Mexico" (Ph.D. diss., University of California, Berkeley, 1997).

[77] A month before the 1994 election, PRD candidate Cuauhtémoc Cárdenas promised that his administration would pressure the banks to lower interest rates. However, when asked to openly support a greater opening to foreign banks, he declined. *El Financiero* (June 12, 1994), 45.

[78] Author's interview, Mexico City, March 10, 1995.

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dollar. Although this "restricted band" allowed a moderate nominal devaluation of the peso, because the amount the peso could slide was far less than the difference between the inflation rates of Mexico and the United States, the result was a cumulative overvaluation. The pegged exchange rate under Salinas made Mexico dangerously dependent on volatile, short-term foreign capital. Now widely recognized as the principle cause of the December 1994 currency crisis, the policy was tenaciously defended by the Salinas administration as the key to macroeconomic stability.

Mexico's exchange-rate policy was inextricably linked to the country's securities market and the current account balance. The Achilles' heel of the Mexican model was the trade deficit, which was the result of trade opening and an increasingly overvalued currency. The Salinas administration routinely justified the growing gap as evidence that Mexico was importing the capital needed to improve productivity, which would eventually enable the country to export its way into a trade surplus.[79] However, the evidence suggests that investment and consumption patterns had locked Mexico into a permanent deficit.[80] By 1991 the deficit had grown to $14 billion, by 1993 it reached $25 billion, and by Salinas's last year it had reached an alarming 7 percent of GDP. To cover the gap, Mexico looked abroad for capital. Largely because of historically low American interest rates during the first years of the decade, the Mexican money market became one of the world's largest and most lucrative havens in which global investors could park their capital.[81]

Because the maintenance of Mexico's trade deficit was dependent on the steady and growing inflow of dollars from abroad, the state took measures to ensure asset security. Most important was to keep the exchange rate stable, since any devaluation would translate directly into an asset loss for holders of Mexican securities. The director of the cen-

[79] Carlos Salinas de Gotari, "Economic Highlights of the Sixth Annual Presidential Report," *Mercado de Valores* (January–February 1995), 13.

[80] For a commentary on the technical flaws in Salinas's economic model, see Nora Lustig, *The Mexican Peso Crisis: The Foreseeable and the Surprise* (Washington, D.C: Brookings Institution, 1995); Rogelio Ramírez de la O, "The Mexican Peso Crisis and Recession of 1994–1995: Preventable Then, Avoidable in the Future?" in Riordan Roett, ed., *The Mexican Peso Crisis: International Perspectives* (London: Lynne Rienner, 1996), 18–22. Mexico's impressive export growth, which was largely based on production from foreign corporations, was thus inextricably linked to increasing imports. Exporters outside the *maquiladora (maquila)* sector (foreign-owned assembly plants that export back to the home country) also relied increasingly on intermediate goods from abroad. From 1989 to 1993, while Mexican non-*maquila* exports rose 31.9 percent, from $22.8 billion to $30 billion, an annual increase of 7.2 percent, non-*maquila* imports rose by an astonishing 109 percent, from $23.4 billion to $48.9 billion, an average of 20.2 percent per year. See *El Inversionista Mexicano* (August 29, 1994), 1.

[81] Laura Carlsen, "La bolsa mexicana de valores," *El Cotidiano* 59 (1993), 112; Laurie (fn. 35), 49.

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tral bank's economic research unit explained: "The use of the exchange rate as a nominal anchor implies that the government is committed to adjust all its policies so as to guarantee the stability of the exchange rate."[82] Indeed, to prove the strength of this commitment, in 1989 the Finance Ministry authorized the creation of "hedging" instruments, whose main purpose was to sustain the flow of foreign capital by eliminating the risks of future macroeconomic adjustments.[83]

By providing investors with a high degree of confidence, the government made its fixed-rent instruments irresistible. As Mexico's major business weekly explained: "The great advantage of the money market is its security. No matter what, if you invest in it you get an assured yield, maybe not as high as you could get in the stock market, but a good yield. . . . And it's all done under the administration of experts, while the investor scratches his stomach and dedicates his energies to other things."[84]

Foreign investors responded well. By September 1993 they possessed 60 percent of short-term Cetes, 87 percent of exchange-rate-indexed bonds, and 57 percent of inflation-indexed bonds. The foreign purchase of all government securities grew by 756 percent between 1991 and August 1994.[85] The vast majority of foreign capital was invested in Mexico for the unambiguous purpose of extracting financial rents, while a decreasing proportion went to direct investment.[86] See Figure 1.

Notwithstanding the enthusiastic reception of Mexican debt issues in the foreign investment community, the relationship between the trade deficit and the exchange rate represented a vicious circle in Mexico's macroeconomic model (see Figure 2). Because the crawling peg continued to inflate the peso, imports became more affordable, further increasing the current account deficit. To cover the gap, the central bank had to acquire massive amounts of dollars from abroad, which in turn required the state to open the securities market to foreign investors and sustain the value of the peso. However, because the strong currency made imports cheaper, the trade deficit grew ever larger and had to be covered with increasing inflows of foreign capital.[87]

[82] Agustín Carstens, "Foreign Exchange and Monetary Policy in Mexico," *Columbia Journal of World Business* 29 (Summer 1994), 75.

[83] *Ajustabonos* (adjustable bonds) offered real interest after covering for inflation, while *tesobonos* (treasury bonds) guaranteed payment indexed to the exchange rate. See Ana Laura de Coss, "Instrumentos de inversión que ofrecen protección cambiaria," *El Economista* (October 7, 1994), F16.

[84] *Expansión* (November 21, 1990), 59.

[85] *Mercado de Valores* (November–December 1994), 31.

[86] *LatinFinance* (July 1992), 58.

[87] See especially "Déficit comercial de México: ¿Sostenible?" *Este País* (May 1993), 26.

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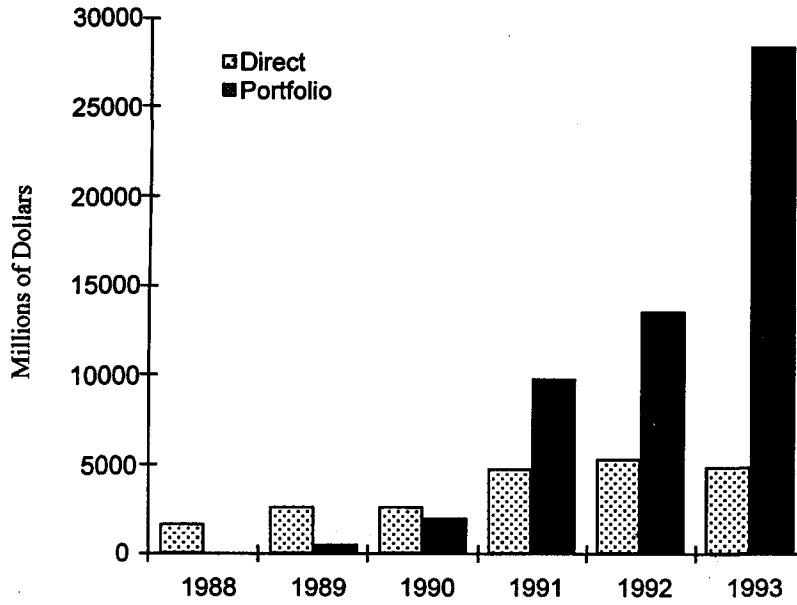

FIGURE 1
BREAKDOWN OF FOREIGN INVESTMENT
(1988–93)

SOURCE: Banco de México, *Indicadores Económicos* (1995).

In such a precarious environment, any event that interfered with increased capital inflows would make this dynamic unsustainable. That opportunity came in the form of increased U.S. interest rates in 1994.[88] In the context of the Chiapas uprising and high-profile political assassinations, the interest hikes represented an attractive alternative to jittery investors. In a desperate effort to defend the peso, the Salinas administration depleted foreign-exchange reserves from a high of $30 billion to just $6 billion by the end of the year. In December alone between four and six billion dollars left the country. On December 20, 1994, just three weeks into the Zedillo administration, the exchange-rate band was widened by 15.3 percent. Investors immediately panicked, setting off a run on the peso. The next day the Finance Ministry announced that the peso would float freely against the dollar. Its value

[88] Fear of inflation following moderate U.S. growth led the Federal Reserve to almost double interest rates in 1994, from 3 percent to 5.5 percent. For a discussion of the effect of U.S. interest rates on emerging markets, see Masood Ahmed and Sudarshan Goopta, "Portfolio Investment Flows to Developing Countries," *Finance and Development* (1993), 11.

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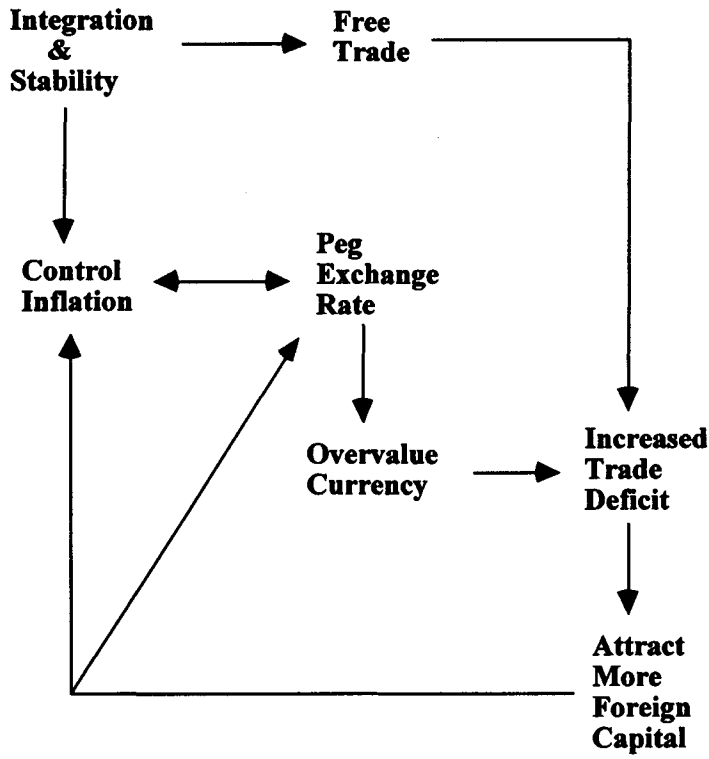

FIGURE 2
RELATIONSHIP BETWEEN EXCHANGE RATE AND CAPITAL INFLOWS

plummeted to half its nominal value and Mexico plunged into economic crisis.[89]

Why did the highly ideological group of neoliberal economists that ran Mexican policy insist on distorting foreign-exchange markets, particularly given the unsustainable dynamic of the crawling peg? Part of the reason for the government's stubbornness was the damage that devaluation had already done to the legitimacy and credibility of the ruling party. Each of the three previous presidents had allowed the peso to collapse. President López Portillo, who declared that "the president who devalues is devalued," would come to regret his public vow to defend the peso "like a dog"—a vow issued only shortly before he was

[89] For an evaluation of the unsustainable buildup of *tesobono* debt accumulated in 1994, see the special isue on debt of *El Inversionista Mexicano* (July 25, 1994). For economic analyses of the peso crisis, see *Journal of International Economics* 41 (November 1996); James Cypher, "Mexico: Financial Fragility or Structural Crisis?" *Journal of Economic Issues* 30 (June 1996).

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forced to let the peso collapse in 1982. Salinas's predecessor, Miguel de la Madrid, had been unable to tame triple-digit inflation for most of his term. Mexicans had come to equate a weakening currency not only with high inflation, recession, and economic incompetence but also with national humiliation. As a leading Mexican business columnist observed, among the Mexican policy-making elite, "To pronounce the word devaluation is heresy and provokes [political] ex-communication and punishment."[90]

Yet the legacy of devaluation cannot explain the Salinas administration's refusal to simply slow the overvaluation of the currency. In the early 1990s, when Mexico's inflation rate was the lowest in Latin America, a modest expansion of the exchange-rate band would have eased the trade deficit and stabilized the peso's value relative to the dollar. Economists and investment counselors had been growing increasingly anxious about the overvaluation of the peso as early as 1992.[91] If free markets provided the optimal degree of efficiency and distribution of capital, why not let foreign-exchange markets decide how much the peso should be worth or at least widen the band significantly?

The main reason for Salinas's apparently deliberate strategy of overvaluing the peso was that virtually all of the economic interests that exercised influence over the PRI's political future were united, either implicitly or explicitly, in support of the status quo. For bankers and large industrialists, the middle class, and workers, Mexico's crawling peg provided important economic benefits. Searching for a way to satisfy such disparate groups, the ruling party found itself under intense pressure to maintain an increasingly unsustainable exchange-rate policy that satisfied everyone.

Because inflation had been out of control for so long, the containment of price increases became the most immediate source of concern among members of the business community. In fact, inflation fighting was such a high priority that the state managed to stifle business opposition to the acceleration of trade liberalization in the late 1980s by tying the economic opening to the renewal of negotiations for a price stability agreement with unions.[92] Private sector leaders routinely

[90] Juan José Hinojosa, *Proceso* (March 1, 1994), 34.

[91] Rudiger Dornbusch and Alejandro Werner, "Mexico: Stabilization, Reform and No Growth," *Brookings Papers on Economic Activity* (1994), 253; Steve H. Hanke and Alan Walters, "The Wobbly Peso," *Forbes* (July 4, 1994), 161. Gregorio Guillén, "Reforma económica, mecanismos de financiamiento y procesos de inversion," *Comercio Exterior* 44, no. 12 (1994), 1062; *Mexico Insight* (May 1, 1994), 19; *El Financiero* (November 26, 1992), 8; Victoria Griffith, "Growing Pains," *LatinFinance* 45 (1993), 38.

[92] See Robert R. Kaufman, Carlos Bazdresch, and Blanca Heredia, *The Politics of the Economic Solidarity Pact in Mexico: December 1987 to December 1988* (Washington D.C.: World Bank Project on the Political Economy of Economic Reform, July 1992), 43.

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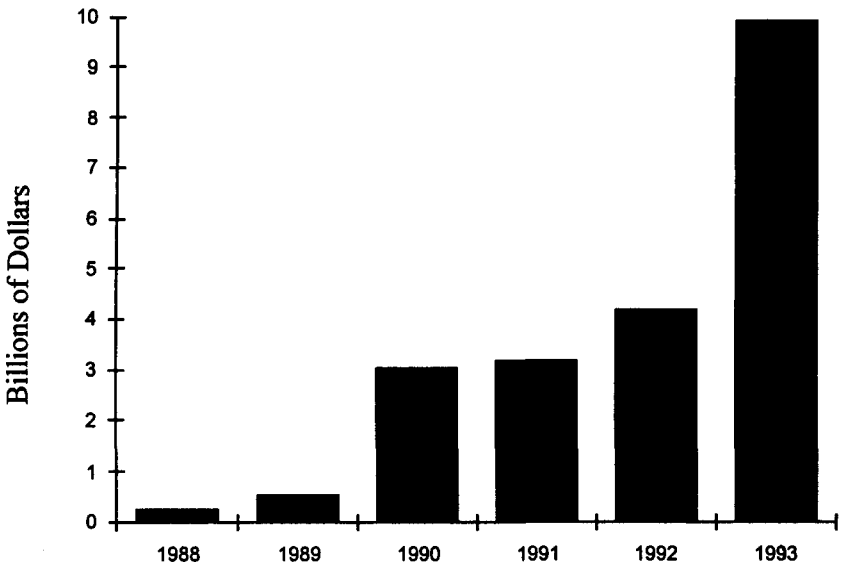

FIGURE 3
FOREIGN DEBT PLACEMENTS BY MEXICAN ENTITIES
(1988–93)

SOURCE: CNV/SHCP, *1993 Annual Report* (Mexico City: Comisión Nacional de Valores, 1993).

argued that the benefits of maintaining confidence and a stable currency outweighed the dangers of overvaluation.[93]

Perhaps even more importantly, just as a strong peso subsidized imports, it also reduced the costs of international capital. Private sector access to global financing was essential to the success of the PRI's outward-oriented economic model. Large firms reentered global capital markets in the 1990s in a big way (see Figure 3). As Mexico's director of public credit noted in 1993: "Many Mexican companies want to raise funds in dollars. The difference between Mexican and U.S. interest rates is too attractive to pass up."[94]

By 1991 Mexico accounted for 90 percent of the volume of total Latin American international bond issues.[95] The major financial and industrial conglomerates were able to grow more rapidly than GDP from 1987 to 1992 because they had access to both domestic and, more im-

[93] Alejandro Márquez, "Tipo de cambio: No lo toques, por favor," *Expansión* (June 1993), *Gobierno Mexicano* (April 1991), 39.
[94] *LatinFinance* (March 1993), 67.
[95] *LatinFinance* (May 1991), 19.

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portantly, foreign credit. Among the largest fifty-nine economic groups, dollar-denominated debt doubled between 1988 and 1991, reaching over half total liabilities.[96] The financial burden of these foreign obligations was reduced in large part due to the exchange-rate peg. When the government tightened the crawling peg at the end of 1991, it justified its action in large measure based on benefits to large Mexican firms that had significant dollar debts.[97]

Another factor contributing to the PRI's maintenance of the crawling peg was middle-class support. The strong peso translated into greater purchasing power, acting as a subsidy for goods and services from abroad. For middle-class consumers, the fixed exchange rate reduced the price of imported groceries and department store luxury items, consumer durables, foreign travel, and domestic manufactures made with foreign inputs. Many of these goods became important cultural symbols of prestige, sophistication, and cosmopolitanism.

Finally, labor unions also supported the maintenance of the exchange-rate peg as a means to control prices. Although the PRI's strongest constituency since the 1930s had been organized labor, the steady erosion of wages had begun to expose the Salinas administration to increasing criticism.[98] In October 1992 President Salinas promised labor that the renewal of the price-stabilization pact between business and labor would avoid inflationary pressure on salaries.[99] In exchange for continued support of wage restraint, following almost a decade of dropping real income, Mexican union leaders insisted that the government take concrete measures to prevent further erosion of salaries. "Labor certainly would not endorse a pact that would accelerate the devaluation of the peso as that would be an *ipso facto* endorsement of a bulge in prices."[100]

What is remarkable about Salinas's exchange-rate policy is that it had virtually no detractors. Consumers and workers were united in their approval of stronger buying power, as were bankers and importers of foreign goods. Less expected was strong support even among those industrial interests that traditionally stood to gain competitiveness

[96] Celso Garrido, "National Private Groups in Mexico, 1987–1993," *Cepal Review* 53 (1994).

[97] See Luis F. Stein Velasco, "Menor carga financiera," *Alto Nivel* (November 1988), 15; *El Financiero* (November 25, 1991), 87.

[98] A widely cited 1990 UNAM study reported that Mexico's real minimum wage had fallen by more than one-third since 1987 and was worth less than half its 1982 value. In 1994 a government commission calculated the nation's average real salary at 25 percent below 1982 levels. See *El Financiero* (November 25, 1994), 24.

[99] Carlos Salinas, "El nuevo pacto para la estabilidad, la competitividad y el empleo (PECE)," *Mercado de Valores* 21 (1992), 3–5.

[100] Patricia Nelson "PECE with the Peso," *Mexico Business News* (June 1990), A7.

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through a devaluation.[101] Because Mexican manufacturers purchased such a high proportion of industrial inputs abroad, a weakened peso would raise production costs, thus offsetting increases in international competitiveness.[102] In effect, as long as the illusion of currency stability could be maintained, the pegged exchange rate created no losers.

For this reason, political opposition to maintaining the exchange rate was extremely limited. With most Mexicans still complaining after more than a decade of recession that their money bought too little, it was an unwise politician who argued that the peso was worth too much! At no time during the course of the presidential campaign did PAN candidate Diego Fernandez support a change in the exchange rate. To have done so would have exposed his party to withering attacks from PRI politicians and their Ph.D.-wielding technocrats. Similarly, although the PRD's Cárdenas warned in April 1994 that PRI mismanagement would lead to devaluation, when pressed to endorse an adjustment in the exchange rate, he stated: "I do not pronounce myself in favor of it; that's an affair for the Banco de México. . . . I am not recommending it."[103]

Conclusion: Political Obstacles to Liberalization

This study reveals how political constraints make comprehensive economic reform difficult, particularly for a developing country in the throes of a political opening. Confronted with unprecedented party competition, the PRI leadership attempted to recover electoral support and sustain an unwieldy social alliance by turning to finance policies that undermined its own reformist orientation. Although Mexican democracy in the early 1990s could hardly be described as robust, the ruling party faced the possibility of losing a national election for the first time in its history. Even though the PRI enjoyed a significant degree of control over political, economic, and ideological resources, the neoliberal Salinas administration chose to undertake policies that flew in the face of market principles and economic stability, in order to strengthen its bases of social support.

[101] The National Industrial Chamber, the Confederation of Industrial Associations, and the National Council of Foreign Commerce all supported the maintenance of the peg through 1994. See *El Financiero* (November 16, 1994), 28; *La Jornada* (August 31, 1994), 43; *El Norte* (April 3, 1993).

[102] Part of the government's justification for maintaining the peg was to avoid price increases on imported machinery and inputs. See *El Financiero* (November 25, 1991), 87. While exporting *maquiladoras* have long imported virtually all inputs, the domestic non-*maquila* sector also relied increasingly on intermediate goods from abroad. From 1989 to 1993, while Mexican non-*maquila* exports rose 31.9 percent, from $22.8 billion to $30 billion, non-*maquila* imports rose by an astonishing 109 percent, from $23.4 billion to $48.9 billion. See *El Inversionista Mexicano* (August 29, 1994).

[103] *El Economista* (April 14, 1994), 48.

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The policy implications for countries undergoing a dual transition can hardly be overstated. As authoritarian governments become more democratic, their plans to free the economy from generations of state intervention will inevitably collide with the need to win votes legitimately. The most powerful and well-organized vested interests are likely to make policy demands that ease the difficult transition to open markets. At the same time, politicians will be pressured into providing benefits for unorganized groups with real voting power.

From the Mexican experience we can derive two general propositions about developing countries making their way to democracy and markets. First, no matter how committed and indoctrinated government officials are to market principles, politics comes first. Leaders who must be responsive to voters may be able to carry out significant reform measures, but they are also likely to shape policies to maintain or expand their social support base. Second, largely as a consequence of the political imperative, the transition will not be seamless. The reform process necessarily proceeds one step at a time, which means that certain economic sectors will be liberalized more quickly than others. This unevenness, in turn, will have serious implications for economic performance and stability.

We cannot easily generalize about the sequence of policy reform in all developing countries, because there are so many areas in which states can twist or stall reform. The lesson of Mexico is not necessarily that the banking sector will inevitably be manipulated by every transitional government—although it is probably a good candidate in many!—but rather that the most serious distortions are likely occur in policy areas that affect the most crucial constituents.

In terms of a research agenda, this means that case studies are essential. The financial crisis that exploded in East Asia in 1997 demonstrated that industrializing countries which were widely believed to be following very similar development models in fact pursued distinct growth strategies. For example, although Taiwan and South Korea have frequently been lumped together as matching examples of successful export-led development, only the latter was threatened with a banking collapse. Indeed, Korea's *chaebol*-dominated economy more closely resembles Mexico's financial-industrial *grupos* than it does a typical Asian tiger. Moreover, the political logic of business-government relations is bound to be different in an economy dominated by giant multinational conglomerates than in one driven mostly by smaller firms. By the same token, empirical work on labor, peasant, and middle-class groups in

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each country will be needed to elucidate the political challenges facing policy reformers throughout the Pacific Rim.

Given the potentially disastrous economic consequences of combining market distortions with genuine deregulation, the social and electoral pressures facing policymakers in emerging markets should receive far more attention from the international financial community. While the IMF was quick to respond to East Asia's recent meltdown, it apparently had not seen the crisis coming. Economic analysts seeking to explain the sudden fall of the tigers continue to focus on the technocratic elements of unsustainable financial policies.[104] However, they are also becoming increasingly aware of the political factors underlying those decisions.[105]

Unfortunate experiences with liberalization should not lead us to the conclusion that politics makes effective economic reform impossible in developing countries. Rather, it should serve as a lesson to policymakers eager to make the transition to markets. Reformist governments confronting genuine political opposition may be tempted to appeal to strategic constituencies with distributional policies that distort markets. Moreover, while research in the 1970s and 1980s focused on the difficulties governments have in carrying out macroeconomic adjustment, in the 1990s and beyond the main challenge seems to be regulatory. Indeed, the experiences of the Salinas administration and the Asian crisis suggest that it may be easier for governments to achieve fiscal discipline than responsible deregulation. Why is the regulatory aspect of liberalization more daunting than balancing budgets and selling off public companies? Perennial technical problems such as bureaucratic infrastructure and competence are certainly part of the answer. But perhaps an even more important reason is that the political rewards for beating inflation tend to come quickly and last a long time, while most citizens cannot easily perceive the benefits of effective rules that govern economic transactions they rarely even think about.

The failure of Mexican finance reform does not provide clear evidence of either the inadequacy or the usefulness of economic liberaliza-

[104] See Chen Te'an, "Lessons from Financial Crisis in Southeast Asia," *Beijing Review* 40 (September 29, 1997); Brian Bremner and Joyce Barnathan, "Who's Really Pounding Asian Economies?" *Business Week* (September 22, 1997), 52; "Lessons for Thailand, et al." *Economist* (July 12, 1997), 16. For a more formal analysis of the regulatory causes of the Asian crash, see Paul Krugman, "What Happened to Asia?" (http://web.mit.edu/krugman/www/DISINTER.html).

[105] On the role of cronyism and corruption, see Peter C. Newman, "Something Rotten in the State of Asia," *Maclean's* (December 29, 1997), 96; "Asia's Stockmarket Nightmare," *Economist* (December 20, 1997), 107; Steven Butler, "Living Dangerously," *U.S. News & World Report* (January 19, 1998), 55.

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tion. On the one hand, this study has shown that the 1994 collapse was largely the result of the government's intervention and distortion of financial markets and that stability was undermined largely because market discipline was abandoned. On the other hand, it also suggests what policy analysts have increasingly come to accept: that the state has a legitimate role in economic management, particularly in addressing problems such as anticompetitive behavior and speculation.

Orthodox policymakers might be tempted to use the Mexican case to argue that their theories and models were right all along, by maintaining that any liberalizing measure is a clear indicator of policy improvement. That would be unfortunate. Rather than insist that all market reforms are good reforms, the gatekeepers of economic policy would do a great service to their profession and the countries they advise by studying the political limitations to liberalization. Accordingly, they should direct more attention to the problems of implementing an incomplete and imperfect liberalization program, consider the implications of piecemeal reform measures, and how combinations of liberal and nonliberal policies are likely to affect economic stability. This analytical approach will not bring about market utopia. However, it is much more likely than are abstract models of economic efficiency to lead to the adoption of a consistent and sustainable set of reforms.

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WELFARE-STATE RETRENCHMENT REVISITED

Entitlement Cuts, Public Sector Restructuring, and Inegalitarian Trends in Advanced Capitalist Societies

By RICHARD CLAYTON and JONAS PONTUSSON*

THE goal of this article is to provide a balanced assessment of what has happened to the welfare state in advanced capitalist societies since 1980. What is one to make of recent spending cuts and welfare reforms? Do they represent a fundamental rollback of the welfare activities of the state and thus a belated victory for Thatcherite-Reaganite ideas? Or should these changes rather be seen as incremental adjustments of mature welfare states, proven to be more enduring than their critics?

Already in the 1970s many observers concluded that the welfare state had reached its outer limits and began to speak of a crisis of the welfare state. The rhetoric of crisis was inspired by the idea, shared by neo-Marxists and neoliberals, that the redistributive logic of the welfare state was contradicted by the logic of capitalism, and that the welfare activities of the state would have to be rolled back or reconfigured so as to conform to the needs of capitalism. With neoliberal ideas gaining ascendancy in both the United Kingdom and the United States at the onset of the 1980s, the fate of the welfare state appeared to be sealed. In retrospect, however, it is clear that Thatcher's and Reagan's achievements in the realm of welfare reform fell short of what their rhetoric promised. Against this background, the resilience of the welfare state has emerged as a prominent theme in the scholarly literature of the 1990s, with Paul Pierson's widely cited *World Politics* article of

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1996 providing, we think, the clearest and most compelling presentation of the case for welfare-state resilience.[1] Using this article as a foil, we seek to examine some of the conventional wisdom in the literature and to sketch an alternative approach to the study of welfare states in transition.

Basing his argument on aggregate OECD statistics as well as on case studies of Germany, Sweden, the U.K., and the U.S., Pierson contends that welfare cutbacks and reforms have been strictly limited in scope. At the same time, he observes, "the power of organized labor and left parties has shrunk considerably in many advanced industrial societies."[2] Together, these observations pose a challenge for the power-resource model developed by Walter Korpi and others to explain cross-national variations in welfare-state development.[3]

The politics of welfare-state retrenchment appear to be fundamentally different from the politics of welfare-state expansion. Pierson's notion of a "new politics of the welfare state" yields three specific arguments to explain welfare-state resilience. First, "the welfare state now represents the status quo, with all the political advantages that this status confers."[4] Especially in countries where different institutions share power, radical reform is inherently difficult. Second, Pierson argues, welfare cutbacks tend to be associated with high electoral costs for the simple reason that basic welfare programs enjoy widespread popular legitimacy. Third, he attributes resilience to successful mobilization by well-organized groups representing the interests of consumers of welfare benefits (such as retirees), as well as employees of the welfare state. The combination of these factors yields a politics of blame avoidance in which cutbacks can take place only through incremental and surreptitious mechanisms or during moments of extraordinary fiscal stress and political consensus.

[1] Pierson, "The New Politics of the Welfare State," *World Politics* 48 (January 1996). Pierson's article builds on his book, *Dismantling the Welfare State?* (New York: Cambridge University Press, 1994), which analyzes the Thatcher and Reagan experiments in detail. Other comparative analyses emphasizing the resilience of welfare states include Geoffrey Garrett, *Partisan Politics in the Global Economy* (New York: Cambridge University Press, 1998); John Stephens, Evelyne Huber, and Leonard Ray, "The Welfare State in Hard Times," in Herbert Kitschelt et al., eds., *Continuity and Change in Contemporary Capitalism* (New York: Cambridge University Press, forthcoming); and Duane Swank, "Social Democratic Welfare States in a Global Economy," in Robert Geyer, Christine Ingebritsen, and Jonathon Moses, eds., *Globalization, Europeanization and the End of Scandinavian Social Democracy?* (London: MacMillan, forthcoming). For a detailed critique of Pierson's work, see Jens Alber, "Selectivity, Universalism, and the Politics of Welfare Retrenchment" (Paper presented at the annual meetings of the American Political Science Association, San Francisco, 1996); and for a comprehensive review of recent welfare-state literature, see Kees van Kersbergen, "The Declining Resistance of National Welfare States to Change?" (Manuscript, School of Public Affairs, University of Nijmegen, 1997).

[2] Pierson (fn. 1, 1996), 150.

[3] E.g., Korpi, *The Democratic Class Struggle* (London: Routledge and Kegan Paul, 1983).

[4] Pierson (fn. 1, 1996), 174.

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The literature on welfare-state retrenchment raises the thorny question of how to distinguish radical change from incremental adjustments. For instance, writing about Sweden in the early 1990s, Pierson states that conditions were uniquely favorable to a "complete overhaul of social policy," but even so "there was no sign that the welfare state would be radically restructured."[5] Exactly what, then, would a "complete overhaul of social policy" or a "radical restructuring of the welfare state" entail? And should we not allow for some outcomes that are neither "incremental adjustments" nor "complete overhauls"? Without resurrecting the crisis rhetoric of the 1970s and its functionalist premises, the following analysis shows that major changes have indeed occurred in the scope and organization of public welfare provision not only in the U.K. and the U.S., but across the OECD area more generally.

The presentist concerns of the retrenchment literature exacerbate the conceptual problem of distinguishing incremental adjustments and radical change. Do cuts in social spending represent a long-term trend or simply a response to transitory macroeconomic conditions? Like most of the retrenchment literature to date, Pierson's discussion deals primarily with the experience of the 1980s. As we update his quantitative and qualitative evidence, we gain some analytical leverage on trajectories of change and find that the resilience thesis becomes less compelling.

Going beyond updating, this article seeks to broaden the discussion of welfare-state retrenchment and, at the same time, to promote a more careful consideration of measurement issues. Exemplified by Pierson's work, the existing literature tends to focus on the efforts by politicians to enact entitlement changes or, more precisely, on the significance of the entitlement changes that have been enacted. This way of thinking about welfare-state retrenchment is too narrow. First, recent cutbacks and welfare reforms must be situated in the context of rising social inequality and insecurity. Since the late 1970s the dynamics of advanced capitalism have been undoing some of the postwar achievements of welfare states. Increased welfare effort would have been required to maintain these achievements. Moreover, the rise of mass employment and the decline of employment opportunities for unskilled workers affect the way welfare states work, irrespective of whether governments cut or reform social programs. Even in the Scandinavian welfare states, celebrated for their universalism, the system of social insurance has remained closely tied to employment. Since about the mid-1980s the number of people who do not have access to these universalistic pro-

[5] Ibid., 171.

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grams and who must instead rely on means-tested social assistance has increased considerably in proportion to the total population.

We argue in a similar vein that measuring the size of the welfare state in terms of social spending as a percentage of GDP, as virtually all of the literature does, is problematic because such measures fail to take account of changes in societal welfare needs. The alternative measures that we propose show that the rapid growth of social spending in the 1960s and 1970s came to an end in the 1980s and that public services were more affected by the deceleration of growth than transfer programs. Measuring the welfare state in terms of the absolute size of the public sector labor force, we find quite a few instances of actual welfare-state shrinkage in recent years.

By and large, the retrenchment literature tends to ignore the question of changes in the delivery of social services or, in other words, the question of how the public sector is organized. While Pierson does discuss health care, most of the entitlement programs that he considers are based on transfer payments. At least in Sweden and the U.K., however, it is in the realm of public services that we find the most significant cutbacks and market-oriented reforms. Related to this, finally, we argue that summing up changes in individual social programs does not provide the basis for an adequate assessment of what has happened to welfare states since 1980. We must also consider changes in the overall configuration of welfare spending, that is, how the allocation of resources among individual programs might have changed. Thus we propose to explore not only the extent of welfare-state retrenchment, but also forms of welfare-state restructuring.

The importance that we assign to the public sector as a site of service production follows from Gösta Esping-Andersen's well-known and much-admired comparative analysis of welfare-state development.[6] As Esping-Andersen points out, the Scandinavian welfare states are distinguished by their reliance on the direct provision of services. Yet state-produced services constitute a crucial dimension of the public provision of social welfare in virtually all advanced capitalist societies these days. And, to the extent that it involves nonprofit production and allocation of output according to political criteria, it is this dimension of the welfare state that most directly contradicts the logic of capitalism.

[6] Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton: Princeton University Press, 1990). The importance of services relative to transfer payments constitutes the most obvious basis for distinguishing among "institutional welfare states" (say, between Sweden and the Netherlands). Esping-Andersen's concept of "decommodification" partly captures but also blurs this distinction. Scoring very high on Esping-Andersen's decommodification index, the Scandinavian welfare states have traditionally promoted labor-force participation and strengthened the power of wage earners as sellers of labor power (rather than reducing their dependence on the sale of labor power).

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Population aging and international capital mobility constitute sources of pressure on contemporary welfare states across the OECD area.[7] Like most students of comparative welfare-state development, we believe that politics very much affects how these pressures play themselves out. In our conception of politics, however, societal interests play a more important role than they do in Pierson's politician-constituent frame. In Western Europe, at least, mass unemployment has become an institutionalized feature of labor markets, with long-term unemployment and early labor-force exit among unskilled workers coexisting with continued employment security for other segments of the labor force. While public opinion continues to favor core welfare programs, this situation has rendered the maintenance of welfare-state universalism politically more precarious. Also, the antiservice bias of the ongoing restructuring of the welfare state can be seen at least in part as an expression of the interests of export-oriented coalitions of private sector employers and labor.

Though we shall present some quantitative data for a larger set of OECD countries, our analysis will focus on the four countries discussed by Pierson. Although he does not explicitly discuss case selection, it seems clear that the cases were chosen as examples of Esping-Andersen's three types of welfare states, with Sweden exemplifying the social democratic type, Germany the conservative type, and the U.S. the liberal type. While the British welfare state does not fit neatly into Esping-Andersen's typology, the British case deserves our attention as a limiting case of neoliberal reform of the welfare state since 1980. Nowhere else has the neoliberal agenda been pursued more rigorously and under more favorable circumstances.

Growing Market Inequality

In this section we present evidence to support the propositions that inequality has increased and that security of employment and income has diminished for many wage earners in advanced capitalist societies since 1980.[8] The literature that emphasizes the resilience of the welfare state

[7] While everyone agrees that demographic pressures are important, the claim that international capital mobility exerts pressure on welfare states is contested by both Garrett (fn. 1) and Swank (fn. 1). It is neither possible nor necessary to develop and support this claim here. Suffice it to say that the question of whether capital mobility exerts downward pressure on welfare states should not be conflated with the question of whether capital mobility produces convergence among welfare states. The evidence presented by Garrett and Swank speaks primarily to the latter question.

[8] It is sometimes argued that the fundamental purpose of the welfare state is to provide for social security and that only some welfare states (in the first instance, the Scandinavian welfare states) have had redistributive ambitions as well. While welfare states clearly vary in their redistributive effects, we find this argument somewhat dubious: since some groups are far more insecure than others in a capitalist society, the public provision of social security is itself a redistributive activity.

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tends to ignore these trends. Pierson and others seem to take the view that the growth of inequality and insecurity is relevant only to the extent that it is a direct result of spending cuts or reforms of the welfare state. In other words, they confine their discussion to the question of the extent to which the welfare state has become less redistributive or less effective in providing protection against market risks. This view fails to incorporate Esping-Andersen's crucial insight that the activities of the welfare state influence the way that labor markets operate. Moreover, the context of rising inequality and insecurity must be considered when we assess the significance of recent changes in the size and character of welfare states. For example, Swedish governments lowered the replacement rate of unemployment insurance from 90 percent to 75 percent in the first half of the 1990s. Had unemployment remained what it had been in the 1980s, these decisions might well have been described as a minor retrenchment of the welfare state. In the context of the dramatic increase of unemployment that occurred in the early 1990s, they take on a different significance.

It is commonplace to measure the distribution of income in terms of the ratio of income at the lower end of the 90th percentile (the lower end of the top 10 percent of income earners) to income at the upper end of the 10th percentile (the upper end of the bottom 10 percent). Referring to the earnings of full-time employees, Table 1 summarizes recent trends in 90–10 ratios in all OECD countries for which such data are available. For men and women combined, wage inequality increased sharply from the late 1970s to the mid-1990s in the U.K. as well as in the U.S. Most other countries experienced increases in the 1–7 percent range, but a handful of countries, most notably Germany, actually moved in the opposite direction. The trend toward increased inequality becomes more pronounced when we take gender differentials out of the picture and especially when we look at the distribution of earnings among men. The 90–10 ratio for men increased in all but two countries, Belgium and Germany. In the U.K and the U.S., it increased by more than a third, and Italy and New Zealand also registered double-digit percentage increases. In many countries, rising within-gender inequality has been offset by the continuation of the reduction of gender differentials that began in the 1960s or 1970s.[9]

The figures in Table 1 capture only part of the tendency since 1980 for market forces to generate more inequality. Several other considera-

[9] Cf. OECD, *Employment Outlook* (Paris: OECD, July 1996), chap. 3; and Pontusson, "Wage Distribution and Labor-Market Institutions," in Torben Iversen, Jonas Pontusson, and David Soskice, eds., *Unions, Employers and Central Banks* (New York: Cambridge University Press, forthcoming).

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TABLE 1
PERCENTAGE CHANGES IN WAGE INEQUALITY (90–10 RATIOS) AMONG FULL-TIME WAGE EARNERS
(1979–95)

	Men	*Women*	*Both Sexes*
Australia 1979–95	7.0	6.7	5.8
Austria 1980–94	5.3[a]	10.7	6.4
Belgium 1985–93	−2.1[a]	−3.9[a]	−4.4[a]
Canada 1981–94	8.0	8.3	5.0
Denmark 1980–90			1.9
Finland 1980–94	3.3	−4.8	−2.8
France 1979–94	1.2	10.0	0.9
Germany 1983–93	−6.3	−14.0	−12.7
Italy 1979–93	14.9	−7.0	−4.4
Japan 1979–94	6.2	1.8	0.0
Netherlands 1985–94			4.0
New Zealand 1984–94	17.6	8.7	5.2
Norway 1980–91			−4.4
Sweden 1980–93	3.8	10.3	3.9
Switzerland 1991–95	4.9	−7.0	−0.4
U.K. 1979–95	36.6	34.2	21.4
U.S. 1979–95	35.6	28.4	

SOURCE: OECD, *Employment Outlook* (July 1996), 61–62.
[a]Based on 80–10 rather than 90–10 ratios.

tions must be introduced to complete the picture. First, disparities of income from capital have undoubtedly reinforced the effects of these trends in the distribution of wage income. Second, the individual-level trends shown in Table 1 have likely been magnified by the pooling of wage income within families. For the U.S., Gary Burtless shows that the correlation between the incomes of spouses has increased very significantly (well-paid men being increasingly likely to be married to well-paid women) and that this development accounts for a large part of the growth of household inequality.[10]

Third, the figures presented in Table 1 understate the rise of inequality because they are restricted to full-time employees. In fifteen out of nineteen OECD countries for which data are available, the incidence of part-time employment increased from 1983 to 1996 and in nine of these countries it increased by more than a third.[11] As women

[10] Burtless, "Widening U.S. Income Inequality and the Growth of World Trade" (Manuscript, Brookings Institution, 1996).
[11] OECD, *Employment Outlook* (Paris: OECD, July 1997), 177.

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constitute the vast majority of part-time employees in all countries and part-time employees earn less than full-time employees on an hourly basis, the proposition that pay differentials based on gender continued to decline through the 1980s may have to be qualified in light of the growth of part-time employment. Finally, data on the distribution of income from employment fail to capture the impact of unemployment. Because unemployment tends to be concentrated among unskilled, low-paid workers, it correlates negatively with wage inequality as measured in Table 1.[12] As the rate of unemployment increases, low-paid workers disappear from the population used to calculate 90–10 ratios and the wage distribution becomes more compressed, but we certainly would not want to conclude from this that unemployment promotes social equality.

Unskilled workers are more likely to become unemployed than more skilled workers, and their spells of unemployment tend to be longer than those of more skilled workers. As noted by Andrew Glyn, educational disparities in labor-force participation have also become more pronounced since the late 1970s: unable to find jobs, many older unskilled workers have simply dropped out of the labor force. To capture the combined effects of employment and earnings disparities, Glyn first calculates the ratio of the employment rate for male wage earners with higher education qualifications (college graduates in American terminology) to the employment rate of male wage earners without an upper-secondary diploma (high school dropouts) and then multiplies this figure by the ratio of the average earnings of the former group to those of the latter group. With both employment and earnings differentials moving against unskilled workers, the British score on this index of educational disparities in income from employment (EDDIE) increased by 27 percent from 1979 to 1991, and the U.S. score increased by the same figure from 1979 to 1991. In Germany between 1978 and 1987 and Sweden between 1987 and 1993, relative earnings trends favoring the least educated were more than offset by relative employment trends favoring the most educated and, in each case, the EDDIE index increased by 3 percent over the time period in question.[13]

The incidence of poverty provides another obvious indicator of social inequality and insecurity. One common measure of poverty is the per-

[12] See David Rueda and Jonas Pontusson, "Wage Inequality and Varieties of Capitalism" (Working paper, Institute for European Studies, Cornell University, 1997).

[13] Glyn, "Unemployment and Inequality," *Oxford Review of Economic Policy* 11 (Spring 1995), 10–11. As these figures refer to men only, the problem of factoring part-time employment into the calculation of employment rates can safely be ignored.

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TABLE 2
PERCENTAGE OF THE POPULATION LIVING IN HOUSEHOLDS WITH AN INCOME OF LESS THAN 40% OF THE MEDIAN INCOME
(C. 1980 AND 1991)

		Before Taxes and Transfers	*After Taxes and Transfers*
Sweden	1981	16.4	6.0
	1992	20.6	3.8
Germany	1978	13.1	2.0
	1989	14.1	2.4
U.K.	1979	20.0	3.1
	1991	25.7	5.3
U.S.	1979	18.8	10.6
	1991	21.0	11.7

SOURCE: Lane Kenworthy, "Do Social-Welfare Policies Reduce Poverty?" *Social Forces* (forthcoming). Pretax/transfer figures for 1978–81 were provided directly by Kenworthy.

centage of the population living in households with an income of less than 40 percent of the median household income. Using this definition and drawing on data from the Luxembourg Income Study, Table 2 presents estimates of the incidence of poverty before as well as after taxes and government transfers for Sweden, Germany, the U.K., and the U.S. around 1980 and 1991. In each of these countries poverty measured in terms of the distribution of "market income" (that is, the distribution of income before taxes and transfers) increased noticeably over this relatively brief period of time. The fact that the percentage of the population receiving some form of means-tested social assistance increased in fifteen out of eighteen OECD countries from 1980 to 1992 suggests that Table 2 captures a general trend, reversing the prior trend toward a reduction of poverty.[14] The pervasiveness of recent inegalitarian trends is indeed striking, especially in view of the strong tendency among students of comparative political economy to emphasize national

[14] See Ian Gough et al., "Social Assistance in OECD Countries," *Journal of European Social Policy* 7 (February 1997), 24–27. Of course, the percentage of the population receiving social assistance might also increase because of political decisions to broaden the coverage of social assistance programs or to cut the benefits provided by more universalistic welfare programs. By the same token, poverty must be measured in terms of market income as well as disposable income in order to distinguish the effects of market forces from the effects of changes in social policy. Finally, it should be noted that the figures in Table 3 refer to relative poverty, as distinct from the absolute measures, such as the official U.S. poverty line. The percentage of the U.S. population living in households with a disposable income below the official poverty line fell from 22 percent in 1960 to less than 12 percent in 1973–79, and then began to rise, reaching 16–17 percent in the early 1990s; see Rebecca Blank, *It Takes a Nation* (Princeton: Princeton University Press, 1997), 55.

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diversity. We hasten to add that common trends do not necessarily add up to cross-national convergence, for convergence requires that the most egalitarian countries experience the most rapid growth of wage inequality, poverty, and so on, and this does not appear to have been the case.

Alongside the factors typically cited by labor economists (structural unemployment, immigration, trade with low-wage countries, technology-driven shifts in demand for labor, and the slower growth of higher education), changes in labor-market institutions (deunionization and employer-initiated decentralization of wage bargaining) have contributed to the growth of wage inequality since 1980.[15] Later in this article, we will suggest that public sector restructuring has also played an important role. For now, suffice it to say that while the redistributive effects of taxation and welfare spending were broadly consistent with labor-market trends in the 1960s, labor-market conditions changed profoundly in the wake of the international recessions of the 1970s. To maintain the disposable income distribution that had been achieved by the late 1970s, a significant expansion of redistributive welfare state activities would have had to occur in the 1980s.

The Employment Rate and the Welfare State

Before we proceed to a discussion of social policy changes, let us briefly expand on the point that employment conditions affect how welfare states work. The Swedish case illustrates this point most clearly.[16] From a comparative perspective, Esping-Andersen is undoubtedly correct to emphasize the universalism of the Swedish welfare state, but the benefits provided by many of Sweden's social insurance programs are in fact tied to employment. Three of the major programs are truly universalistic in the sense that they are available to every citizen (or resident): family allowances, health care, and the basic, flat-rate pension. By contrast, sick pay and parental leave insurance represent government spending on social welfare that, as a matter of definition, only benefits people who are employed. In effect, though not by law, the same goes for subsidized public child care. Finally, entitlements and benefit levels in the supplementary pension (ATP) system, which accounted for 60

[15] Pontusson (fn. 9); and Rueda and Pontusson (fn. 12). For comparative analyses of wage inequality trends by labor economists, see various contributions to Richard Freeman and Lawrence Katz, eds., *Differences and Changes in Wage Structures* (Chicago: University of Chicago Press, 1995).

[16] The basic argument of this section is suggested by Sune Sunesson et al., "The Flight from Universalism," *European Journal of Social Work* 1, no. 1 (1998).

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percent of pension benefits paid out by the government in 1994, are determined by years of employment and income from employment.

In large measure, the universalism that distinguished the Swedish welfare state in the 1970s and 1980s derived from the universalism of employment in Sweden. While men's labor-force participation remained constant, with employed men representing 88.4 percent of the male population between the ages of fifteen and sixty-four in 1990, women's labor-force participation increased from 59.4 percent in 1970 to 83.2 percent in 1990. With unemployment at less than 2 percent, the combined employment rate for women and men stood at 84.4 percent in 1990 (as compared with 67.5 percent for the OECD as a whole). While unemployment rose sharply in the first half of the 1990s to reach 10 percent in 1996, the labor force participation of men and women alike fell precipitously. By 1996 the overall employment rate had fallen to 72.7 percent (as compared with 66.5 percent for the OECD as a whole).[17] In the first half of the 1990s Sweden's nonworking population of working age nearly doubled; this represents a major increase in the number of people with only limited access to universalistic social programs. Badly in need of public support, many of the people who are no longer employed have ended up on some form of means-tested social assistance. Without any policy change, the employment crisis has thus shifted the balance between "universalism" and "residualism" within the Swedish welfare state.

Sweden's employment rate remains well above the OECD average. What is unique about the Swedish experience is the fact that the advent of mass unemployment was delayed for so long and then occurred so abruptly. As welfare benefits are even more closely tied to employment in other countries, the argument about the implications of mass unemployment for the public provision of social welfare sketched here surely applies more generally.

Measuring Welfare Effort

For the four countries which he surveys, Pierson presents aggregate OECD statistics on the evolution of social security transfers as a percentage of GDP, total government outlays as a percentage of GDP, and government employment as a percentage of total employment. In Pierson's words, the quantitative data show "a surprisingly high level of con-

[17] In 1996 the rate of male labor-force participation was 81.6 percent, and the rate for females was 76.3 percent. OECD, *Historical Statistics* (Paris: OECD, 1997); and OECD, *Employment Outlook* (Paris: OECD, July 1997), statistical appendix.

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TABLE 3
AVERAGE ANNUAL GROWTH OF TOTAL SOCIAL SPENDING (AT CONSTANT PRICES) PER POOR PERSON (40% OF MEDIAN INCOME) AND REAL GDP PER CAPITA (1979–92)

	Social Spending/Poor	*Real GDP/Capita*
Sweden 1981–92	.66	1.02
Germany 1978–89	.87	2.11
U.K. 1979–91	1.63	1.87
U.S. 1979–91	.81	1.23

SOURCES: Total social spending as percentage of GDP from OECD, *New Directions in Social Policy in OECD Countries* (Paris: OECD, 1994); and idem, *Social Expenditure Statistics of OECD Member Countries*, Labour Market and Social Policy Occasional Papers (Paris: OECD, 1996); GDP at constant prices from OECD, *National Accounts: Main Aggregates* (Paris: OECD, 1996); poverty rates from Kenworthy (see Table 2); population size from OECD, *Labour Force Statistics* (Paris: OECD, various years); and real growth of GDP per capita from OECD, *Historical Statistics* (Paris: OECD, 1996).

tinuity and stability," and "for none of the countries does the evidence reveal a sharp curtailment of the public sector."[18] This is indeed a judicious assessment of the data presented, but the data are problematic on several counts.

While two of Pierson's time series end in 1990 and the other ends in 1992, "total government outlays" is obviously too broad and "social security transfers" too narrow a measure of the size of the welfare state. More importantly, government spending as a percentage of GDP provides a useful measure of cross-national differences at any point in time, but the GDP denominator of this measure makes it difficult to interpret change over time. In the time series presented by Pierson, two things are changing—the amount of money spent by the government and the size of GDP—and it is impossible to separate one from the other. Still more importantly, Pierson's quantitative measures do not take socioeconomic and demographic changes into account. At any given level of entitlement provisions, an increase in the number of unemployed, poor, or retired people automatically generates increased social spending by the government. Indeed, increased spending might be associated with a reduction of entitlements. To use government spending as a proxy for "welfare effort," we must somehow control for these variables.

Table 3 is the upshot of an alternative approach to the problem of measuring welfare effort or, in a sense, the size of the welfare state. A

[18] Pierson (fn. 1, 1996), 158–59. Cf. also Esping-Andersen, "After the Golden Age?" in Esping-Andersen, ed., *Welfare States in Transition* (London: Sage, 1996), 10–11.

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TABLE 4
AVERAGE ANNUAL GROWTH OF TOTAL SOCIAL SPENDING (AT CONSTANT PRICES) PER AGED-PLUS-UNEMPLOYED PERSON (1960–93)

	1960–80	*1980–93*
Sweden	5.68	.79
Germany	2.65	.53
U.K.	3.08	2.48
U.S.	4.30	2.09

SOURCES: Table 3 supplemented by figures on unemployed and elderly population from OECD, *Labour Force Statistics* (Paris: OECD, various years).

recently available OECD data set provides year-to-year observations of total social spending as a percentage of GDP, enabling us to avoid the unhappy choice between total outlays and social security transfers. Using these figures and the amount of GDP, expressed in U.S. dollars at 1990 prices and exchange rates, we can compute the amount of total social spending at constant prices. The poverty rates reported in Table 2 in turn allow us to divide this figure by the number of people living in households with a market income of less than 40 percent of the median household income. Though the figures for total social spending as a percentage of GDP are available for the entire period 1960–93, the availability of poverty data restricts the time period over which we can observe change in this measure. Table 3 reports the annual growth rate of real social spending per poor person in the 1980s for Sweden, Germany, the U.K., and the U.S., and compares these figures with the annual growth rate of real GDP per capita. In all four countries the growth of real social spending per poor person failed to keep up with the growth of GDP per capita, and, except for the U.K., the differential between these growth rates was quite considerable.

Table 4 reports the results of replicating the exercise described above with a denominator made up of the sum of the number of unemployed and the number of people above sixty-four years of age for 1960, 1980, and 1993. In all four countries, the growth rate of real social spending measured in this fashion was much lower in 1980–93 than in 1960–80. In the U.S. the growth rate in the latter period was just about half of the growth rate in the former period, and in Sweden and Germany it was less than a quarter of the growth rate in the former period. As in Table 3, the U.K. stands out as the country in which real social spending per person has grown most rapidly since 1980. In view of the anti-

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welfare rhetoric of Mrs. Thatcher and her governments, this is surely a striking finding. Two observations regarding this puzzle should be made. First, real social spending per poor person (and per unemployed or aged person) was lower in the U.K. than in the other three countries at the end as well as the beginning of the 1980s. Second, the figures in Table 2 show that the ratio of disposable-income poverty to market-income poverty increased sharply in the U.K. in the 1980s, despite the growth of real social spending per poor person.[19] More so than in any of the other three countries, the effectiveness of social spending in combating poverty appears to have declined in the U.K. The most obvious explanation would be that an increasing share of social spending has been allocated to people who are not poor.

Using data reported by Evelyne Huber and John Stephens in a recent paper, Table 5 illustrates another way to measure changes in the size of the welfare state relative to societal needs. The measure here is public health spending as a percentage of total health spending. From 1980 to 1993 this figure fell in ten of the seventeen OECD countries for which data are available and essentially remained unchanged in another three countries. Even in those countries where the government's share of total health spending continued to increase, the rate of increase was, on an annual basis, much slower in this period than it had been in the previous two decades. One might perhaps argue that the growth of private health spending is primarily a matter of satisfying "frivolous" health care needs, such as cosmetic surgery, and that public programs continue to provide adequately for "basic needs." But waiting lines have become longer and the quality of health services provided by the public sector has deteriorated in at least some countries. As health care needs change, moreover, it is far from obvious where to draw the line between frivolous and basic services.

The Size of the Public Sector

Table 6 summarizes the real growth of final consumption expenditure (that is, the costs of goods and services produced by the public sector) in seventeen OECD countries over the period 1960–94. Like total government outlays, this measure encompasses a range of government activities that have little or nothing to do with the provision of social welfare, but it speaks more directly to the size of the public sector. As

[19] The U.K. ratio of disposable-income poverty to market-income poverty increased from .16 to .21 over the time period covered by Table 3. By contrast, the German ratio increased from .15 to .17, the U.S. ratio held steady at .56, and the Swedish ratio declined from .38 to .18.

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TABLE 5
PUBLIC SHARE OF TOTAL HEALTH EXPENDITURE
(1960–93)

	Levels			*Average Annual Change (% Points)*	
	1960	*1980*	*1993*	*1960–80*	*1980–93*
Australia	48	63	68	.75	.38
Austria	69	69	66	0.00	−.23
Belgium	62	83	89	1.62	.46
Canada	43	75	72	1.60	−.23
Denmark	89	85	83	−.20	−.15
Finland	54	79	79	1.25	0.00
France	58	79	75[a]	1.05	−.29[a]
Germany	66	75	70	.45	−.38
Italy	83	81	73	−.10	−.62
Japan	60	71	72	.55	.08
Netherlands	33	75	78	2.10	.25
New Zealand	81	84	77	.15	−.54
Norway	78	98	93	1.00	−.38
Sweden	73	93	87[a]	1.00	−.43[a]
Switzerland	61	68	69	.35	.08
U.K.	85	89	83	.20	−.46
U.S.	25	42	47[a]	.85	.36[a]

SOURCE: Evelyne Huber and John Stephens, "The Politics of the Welfare State after the Golden Age" (Paper Presented at the annual meeting of the American Political Science Association, Washington, D.C., August 1997).

[a] 1994 rather than 1993.

noted earlier, services provided by the government represent an important component of the welfare state not only in Scandinavia but across the OECD countries. To conceive this component simply in terms of health care and social services in the narrow sense of the term (as the OECD does for the purpose of computing total social spending) seems unduly narrow. Child care, education, retraining programs, and a great many other services promote social welfare in general, and at least some of these services benefit low-income groups in particular.

In all but two countries the average growth rate of real government final consumption was lower in 1973–79 than in 1960–73 and, again, in all but two countries, the average rate in 1979–89 was lower than in 1973–79. In a handful of countries, the growth of government final consumption rose in the early 1990s, but all of these countries had comparatively low growth rates in the 1980s. For every single country, the growth rate of 1989–94 was lower than that of 1973–79 and of

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TABLE 6
AVERAGE ANNUAL RATE OF GROWTH OF REAL GOVERNMENT FINAL CONSUMPTION EXPENDITURE (1960–94)

	1960–73	*1973–79*	*1979–89*	*1989–94*
Australia	5.8	4.9	3.4	2.8
Austria	3.2	3.9	1.5	2.3
Belgium	5.5	3.7	0.5	0.9
Canada	6.1	3.5	2.5	1.1
Denmark	5.8	4.1	1.5	0.8
Finland	5.4	4.8	3.5	–0.1
France	4.0	3.4	2.3	2.6
Germany	4.5	3.0	1.3	1.7
Italy	4.0	2.7	2.6	0.9
Japan	5.8	4.8	2.7	2.1
Netherlands	2.8	3.5	2.0	1.2
New Zealand	3.6	3.2	1.2	–0.2
Norway	5.9	5.3	3.5	3.1
Sweden	4.9	3.7	1.6	0.9
Switzerland	5.3	1.4	2.7	1.1
U.K.	2.7	1.8	1.0	1.5
U.S.	2.5	1.7	2.7	0.1
OECD total	3.6	2.8	2.4	1.2

SOURCE: OECD, *Historical Statistics* (Paris: OECD, 1996).

1960–73. It would appear that as overall government spending has slowed down while the costs of social assistance and social security entitlements have continued to grow, the service components of the welfare state have been squeezed.

The size of the public sector might also be measured in terms of employment, but we must beware of the denominator problem. From 1990 to 1994 the public-sector labor force in Sweden declined by nearly 12 percent. As total employment declined even more, however, government employment as a percentage of total employment actually increased slightly. To avoid this problem, Table 7 tracks the evolution of the public sector labor force, measured in absolute terms (people) rather than in relative terms (percentage of total employment). For nine of these countries the continuous deceleration story of Table 6 becomes a story of outright shrinkage of the public sector. Most remarkably, the size of the public sector labor force declined by nearly 30 percent in the U.K. from 1988 to 1994.[20]

[20] As state-owned corporations are not included in the OECD measure of government employment, these figure reflect the government agencies in corporate form but not the privatization of state-owned corporations.

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TABLE 7
THE SIZE OF THE PUBLIC SECTOR LABOR FORCE
(1960–94)

	Government Employees (in Thousands)			*% Change from Peak to 1994*
	1980	*Peak*	*1994*	
Australia	1,604	1,843 (87)	1,661	−9.9
Austria	596		837	
Belgium	701	755 (86)	730	−3.3
Canada	2,027		2,646	
Denmark	708	812 (90)	792	−2.5
Finland	398	550 (91)	514	−6.5
France	3,395		5,426	
Germany	3,843	4,329 (92)	4,307	−0.5
Italy	3,151	3,415 (92)	3,374	−1.2
Japan	3,654		3,807	
Netherlands	756	858 (90)	835	−2.7
New Zealand				
Norway	419		613	
Sweden	1,299	1,425 (90)	1,256	−11.9
Switzerland	323		424	
U.K.	5,210	5,328 (88)	3,789	−28.9
U.S.	16,732		18,049	
OECD total				

SOURCE: OECD, *Labour Force Statistics* (Paris: OECD, various years); and *Historical Statistics* (Paris: OECD, various years).

Given that only some government employees are engaged in welfare-related activities, to what extent do the employment cuts documented in Table 7 pertain to the public provision of social welfare? In Sweden employment in public health and hospitals fell by 7 percent, employment in care for children and the elderly fell by 10 percent, and employment in education and defense each fell by 4 percent from 1990 to 1993.[21] As Table 8 shows, the shrinkage of the public sector labor force has been highly differentiated in the British case. The largest employment cuts by far have been sustained by central government agencies other than the National Health Service (NHS) and the military, and the number of people employed by local government authorities in social services actually increased from 1985 to 1994 (along with the number of people employed in the police forces). All of this might be taken as evidence that overall employment data overstate the extent of welfare-state shrinkage. The category "other central government,"

[21] Margareta Ringqvist, *Om den offentliga sektorn* (Stockholm: Fritzes, 1996), 111–13.

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TABLE 8
GOVERNMENT EMPLOYMENT IN THE U.K.
(THOUSANDS OF FULL-TIME EQUIVALENTS)
(1985, 1994)

	1985	*1994*	*% Change*
Central government			
armed forces	326	250	−23.3
NHS	1,030	951	−7.7
other	2,144	1,087	−49.3
Local government			
education	1,027	818	−20.4
social services	256	288	+12.4
construction	125	86	−31.2
police	182	201	+10.4
other	741	662	−10.7
Total	5,831	4,343	−25.5

SOURCE: Amanda Hughes, "Employment in the Public and Private Sectors," *Employment Gazette*, no. 495 (January 1995), 18.

however, encompasses welfare-related activities, and employment in both education and the NHS did shrink significantly over this period.

It may be that public sector productivity growth, notoriously difficult to measure, has made it possible to provide the same level of services with fewer employees, but it is hard to believe that labor-force reductions on the scale observed in Australia, Finland, and Sweden, let alone in the U.K., do not translate into less public-welfare provision. And, again, increased societal needs must be taken into account. In view of the societal changes discussed earlier, the figures presented in Tables 6–7 would appear to represent a rather broad-based reduction of service-based welfare effort. Be that as it may, these tables call into question the way that Pierson and other proponents of the welfare-state resilience thesis seem to conflate continuity with stability. Except in a couple of instances, final government expenditure on consumption has continued to grow in real terms, and thus we might say spending patterns have been stable, but if we compare growth rates in the 1980s and 1990s with those of the 1970s and 1960s, *discontinuity* is a prominent feature of Table 6.

The deceleration of government spending growth might be viewed as a result of the maturation of welfare states, that is, a result of the fact that they now provide for basic needs and have perhaps also reached the

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limits of politically acceptable taxation.[22] Clearly, the growth of government spending as a percentage of GDP must inevitably slow down over time. However, there is hardly any correlation, on a cross-national basis, between annual growth of the public sector labor force in 1989–94 and 1990 levels of government employment, measured as a percentage of total employment (r=–.142). The correlation of annual growth rates of final government consumption in 1979–89 and 1985 levels is also weak (r=–.226). It is not the case that countries with large public sectors have experienced more deceleration (or greater public sector cutbacks) than other countries.

Assessing Entitlement Changes

In this section we review and update Pierson's four case studies. We argue that Pierson's own account of British social policy developments belies his claim that the Thatcher governments of the 1980s failed to achieve a significant rollback of the welfare state. For the 1980s the other cases support Pierson's emphasis on welfare-state resilience. However, the benefits provided by social-assistance programs deteriorated steadily in the U.S., and more recently these programs have been dismantled or profoundly restructured. In the Swedish case and, to a lesser extent, the German case as well, the politics of austerity in the 1990s has been accompanied by significant benefit cutbacks and programmatic reforms.

Pierson's account of welfare-state retrenchment in the U.K. focuses on three primary issue-areas—pensions, income support, and housing—but it also encompasses two supplemental issue-areas—sickness/disability support and health care. Summarizing his analysis, Pierson characterizes retrenchment in pensions and housing as "high," retrenchment in income-support programs and health care as "low," and retrenchment in sickness/disability benefits as "low/moderate."[23] Thus the Thatcher regime apparently achieved significant retrenchment in only two of the five areas of welfare-state provision on which Pierson reports. However, the criteria behind this coding of retrenchment outcomes are not spelled out very clearly, and the coding strikes us as dubious in several instances.

In particular, Pierson's characterization of retrenchment in British income support seems to have little to do with the actual level of benefits across the types of transfers that he covers. Pierson acknowledges

[22] Cf. Stephens, Huber, and Ray (fn. 1).
[23] Pierson (fn. 1, 1994), 142–46.

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that the income replacement provided by public unemployment insurance was sharply reduced, that eligibility for unemployment benefits was restricted, and that that the real value of the universal child benefit fell by 14 percent in the 1980s.[24] The expansion of the means-tested Family Credit, he suggests, offsets these cuts. However, in the context of mass unemployment, it seems reasonable to discount the impact of tax credits in offsetting cuts in support for children, the unemployed, and the poor. In any case, the expansion of the Family Credit allowance clearly constitutes a shift of resources toward means-tested welfare provision.

Pierson correctly points out that public health care spending has steadily increased in real terms since 1981 and that the 1990 reform of the NHS preserved publicly financed care, but there is a lot more to the story of British health care. Most informed observers argue that, despite real growth, NHS spending fell well short of increases in demand for health care in the 1980s, resulting in substantial shortages of care in some parts of the country. While fees and charges in the NHS increased from 1.9 percent of total spending in 1979 to 3.2 percent in 1994, the role of private enterprise within the health care sector increased considerably under Thatcher and Major. This combination of underfunding, increased fees, distorted priorities (for example, a huge increase of managerial staff within the NHS), and creeping privatization warrants a less sanguine assessment than Pierson offers.

Turning to the U.S. experience, the absence of any significant cuts in social security and Medicare benefits lends support to the resilience thesis, but Pierson's characterization of income support as an instance of low retrenchment is again questionable. Jens Alber's analysis shows that the maximum food stamps benefit stagnated in real terms and fell in relation to earnings during the Reagan and Bush years. Alber also shows that the percentage of poor households receiving AFDC benefits fell sharply in the early 1980s and never regained its previous levels, while the maximum benefit for such a family of three fell from 67 percent to 36 percent of the poverty level.[25]

The drive to reduce antipoverty spending in the U.S. was capped by the welfare reform bill signed by President Clinton in July 1996. This bill cut food stamp benefits by $24 billion, denied immigrants eligibility for food stamps, restricted social security eligibility for disabled immigrants and children, and cut federal funding for social services and

[24] Pierson (fn. 1, 1996), 109.
[25] Alber (fn. 1).

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child nutrition programs. Most importantly, however, it replaced AFDC with block grants to the states, with no minimum requirements pertaining to either eligibility or benefit levels, but mandating a five-year lifetime limit on receipt of benefits and requiring 50 percent of each state's caseload to be working for benefits by 2002. Though cushioned by economic growth, the distributive consequences of this reform are still considerable. At the time that the reform was passed, the Urban Institute estimated that it would result in some income loss for 11 million families, and move 2.6 million people, including 1.1 million children, into poverty.[26]

While the resilience of more universalistic government programs (middle-class entitlements) remains a conspicuous feature of the American case, changes in the realm of employer-organized welfare schemes also deserve to be noted here. According to Esping-Andersen, "Private coverage in health and pensions has declined steadily during the 1980s, particularly among young and low-wage workers."[27]

In contrast to the U.S., the benefit cuts introduced by Swedish governments since 1990 have been spread more or less evenly across the entire range of entitlement programs. Through a series of piecemeal changes, implemented by both social democratic and nonsocialist governments, the earnings replacement provided by sick pay, parental leave, and unemployment insurance has been reduced from 90 percent to 80 percent and waiting days have been introduced for unemployment benefits as well as sick pay.[28] While the real value of pension benefits has been cut through changes in indexation, the qualifying conditions for early retirement have been tightened. The general child allowance, supplementary allowances for families with more than one child, and need-based housing subsidies have also been cut on the order of 10–15 percent.

As of 1994 the funding of public health care in Sweden has been partially shifted to employee-paid payroll taxes. At the same time, fees charged for doctor's visits and copayments for medications have increased sharply over the last ten years. Also, the sick pay reform of 1991 shifted responsibility for the first fourteen days of sick pay to employ-

[26] Peter Edelman, "The Worst Thing Bill Clinton Has Done," *Atlantic Monthly* (March 1997), 46.

[27] Esping-Andersen (fn. 18), 16.

[28] Social insurance replacement levels were cut from 90 percent to 80 percent by the bourgeois coalition government of 1991–94. The social democrats cut them further to 75 percent in 1995 but subsequently restored these cuts. This summary of Swedish changes draws primarily on Joakim Palme and Irene Wennemo, *Swedish Social Security in the 1990s* (Stockholm: Ministry of Health and Social Affairs, 1998). Cf. also Stephens, "The Scandinavian Welfare States," in Esping-Andersen (fn. 18).

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ers, creating an incentive for employers to reduce absenteeism by improving the workplace environment and/or by monitoring employees to prevent abuse of sick-pay provisions. Reinforcing workers' dependence on their employers, this reform must be considered a step in the direction of "recommodification." Most importantly, the principles of pension reform agreed to by the major political parties provide for shifting the financing of pension benefits toward employee contributions (the current system being based entirely on employer contributions) and the introduction of privately managed individual retirements accounts (to receive roughly 10 percent of total contributions).

Of the four countries surveyed by Pierson, Germany provides the strongest and most consistent support for his emphasis on welfare-state resilience. Like the Swedish welfare state, the German welfare state remained intact through the 1980s. As Alber shows, the real value of both pension benefits and social assistance grants fell in the late 1970s and early 1980s; yet each program subsequently recovered lost ground and, in marked contrast to U.S. income-support programs, benefit levels grew in line with average earnings from the mid-1980s through the mid-1990s.[29] The process of German unification initially served to boost social spending, but its long-term fiscal consequences, combined with the Maastricht criteria for monetary union, precipitated significant cuts in welfare entitlements in 1994–96.[30]

Summarizing some of these entitlement changes, Figure 1 plots the evolution of the "social wage" from the early 1960s through the mid-1990s in the four countries. As operationalized in this figure, based on OECD data, the "social wage" refers to the gross income replacement provided by the welfare state to an unemployed person over five years, and encompasses social assistance and guaranteed-income schemes, as well as unemployment insurance benefits.[31] In all four countries the five-year replacement rate increased in response to initial employment problems in the 1970s. In the Swedish case this upward movement continued through most of the 1980s, when the five-year replacement rate reached 30 percent, but a decline of several percentage points occurred in the first half of the 1990s. In Germany the five-year replacement declined steadily from about 30 percent in 1979 to less than 27

[29] Alber (fn. 1).

[30] See Joyce Mushaben, "Restructuring the German *Sozialstaat*" (Paper presented at the annual meeting of the American Political Science Association, Washington, D.C., September 1997).

[31] The data points in Figure 1 are the average replacement rate for workers at 66 percent and 100 percent of the average production worker's income in three different family situations (single, married with a dependent spouse, and married with a working spouse). For more details on this measure, see OECD, *The OECD Jobs Study: Evidence and Explanations* (Paris: OECD, 1994), chap. 8.

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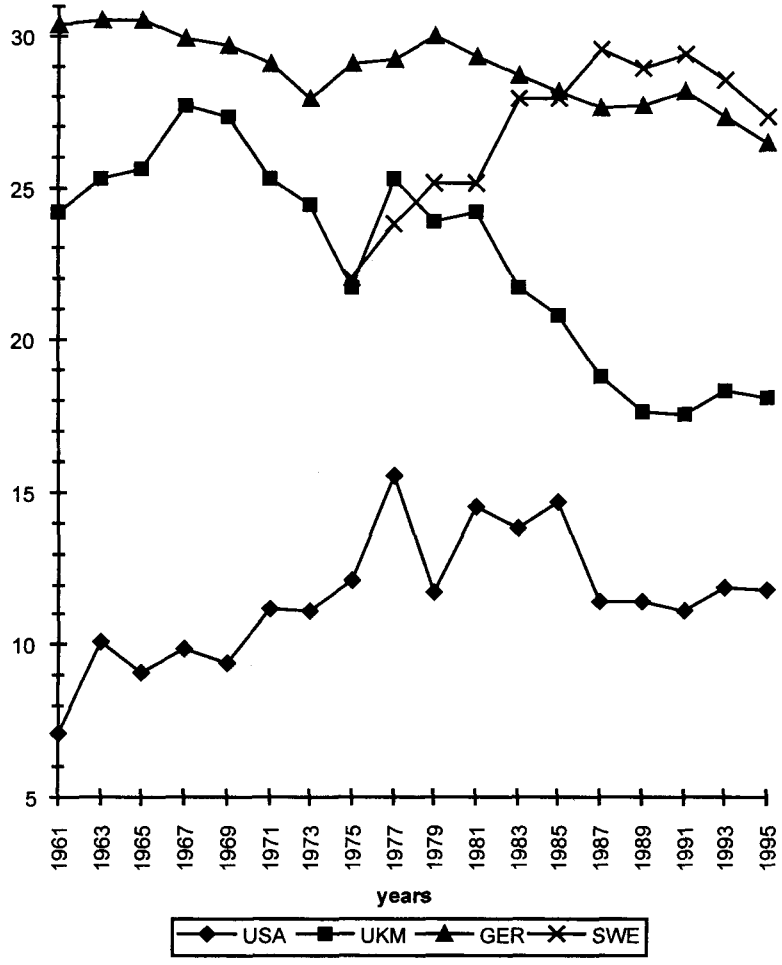

FIGURE 1
THE SOCIAL WAGE (UNEMPLOYMENT REPLACEMENT RATE)
(1961–95)

SOURCE: OECD database on unemployment and replacement rates. See text for data specifications.

percent in 1995. In the U.S. the rate fell from an all-time high of 15.5 percent in 1977 to 11 percent in 1987, and has subsequently remained more or less constant. The long and precipitous decline of the social wage in the British case, from more than 27 percent in the late 1960s to about 18 percent in the mid-1990s, represents the most outstanding feature of Figure 1.

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The Changing Composition of Social Spending

From the analytical perspective of the welfare-state literature, summing up changes in individual social programs hardly provides an adequate basis for assessing the extent to which welfare states have changed, for the central concern of this literature is with relations among social programs, in other words, with the overall configuration of welfare states. One interpretation of Esping-Andersen's work holds that all welfare states consist of three basic components—a universalistic component providing benefits as a matter of citizen rights, a social-insurance component linking benefits to employment, and a means-tested social-assistance component—and that the types of welfare state are essentially distinguished from each other by the relative weight that they assign to these three components. The question becomes whether there have been significant shifts in the mix of welfare-state components over the last fifteen or so years. Showing the distribution of total social spending by type of spending in 1980 and 1993, Table 9 represents a first stab at this question.

In the Swedish and British cases alike, we observe two important changes: first, a shift of social spending from services to transfer payments and, second, a shift of spending on transfers from social insurance schemes to social assistance. The former shift is particularly pronounced in the Swedish case, and the latter is most pronounced in the British case. In the case of the U.S., we observe that the relative importance of public health spending rose at the expense of social insurance, suggesting that rising health care costs have been a major factor behind the continued growth of social spending. In a European context the increased relative importance of health spending would represent an increase in the service intensity of the welfare state, but in the U.S., of course, public health spending primarily takes the form of transfer payments. Consistent with our earlier discussion, Germany stands out in Table 9 as a case of remarkable stability.

The spending figures in Table 9 do not fit Esping-Andersen's conceptual categories perfectly. While transfer payments may be provided on a universalistic basis rather than being tied to employment, services may be provided on a means-tested basis. Recognizing the limitations of these data, Table 6 lends at least some support to the idea that the Swedish welfare state has become institutionally more like the German welfare state and that the British welfare state has become more like the American welfare state.[32] Based on this limited sample of OECD coun-

[32] For a broader discussion of Swedish convergence on the German model, see Pontusson, "Between Neo-liberalism and the German Model: Swedish Capitalism in Transition," in Colin Crouch and Wolfgang Streeck, eds., *Political Economy of Modern Capitalism* (London: Sage, 1997).

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TABLE 9
THE DISTRIBUTION (%) OF SOCIAL SPENDING BY TYPE:
SWEDEN, GERMANY, THE U.K., AND THE U.S.
(1980, 1993)

		Health	*Social Services*	*Social Assistance Grants*	*Social Security Transfers*
Sweden	1980	27.7	13.0	9.9	49.4
	1993	15.9	16.4	13.1	54.6
Germany	1980	25.4	3.3	12.0	59.3
	1993	26.8	3.1	10.9	59.2
U.K	1980	28.4	5.9	19.5	46.3
	1993	25.9	4.7	28.4	41.0
U.S.	1980	25.5	3.1	20.7	50.7
	1993	31.5	1.8	21.8	44.9

SOURCES: Social services, social security transfers, and 1993 health-expenditure data from OECD, *Social Expenditure Statistics of OECD Member Countries,* Labour Market and Social Policy Occasional Papers (Paris: OECD, 1996); 1980 health expenditure data from OECD, *New Directions in Social Policy in OECD Countries* (Paris: OECD, 1994); social assistance figures from OECD, *National Accounts: Detailed Tables* (Paris: OECD, 1996).

tries, it would appear that universalistic service-based welfare states have undergone more far-reaching changes than social-insurance or residualist welfare states. Yet the trajectory of change in the Swedish and British cases is clearly different, suggesting that partisan politics still matters.

REFORMS OF THE PUBLIC SECTOR

As noted earlier, government spending on social security transfers has tended to grow more rapidly than final consumption spending in most countries since the late 1970s. Across the OECD area we also observe important changes in the organization of the public sector and how it has delivered services to its "customers" over the last decade or so. In this section we briefly review public sector reforms in Sweden and the U.K. and consider their distributive implications. We are interested both in how these reforms affect the quality of welfare services provided by the state and access to services for different categories of the population and in what they imply for employment conditions and wage distribution in the public sector.

It should be noted at the outset that public sector reforms have not specifically targeted welfare activities in either country. Rather, organizational changes within health care, elderly care, social work, and so on have been part of a broader process of restructuring the public sector.

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In this area, as in many others, it is difficult to discuss the welfare state in isolation, as if it were a detachable appendix of the modern state.

In the early 1980s the Swedish social democrats established a new ministry to oversee public sector reform. Originally oriented toward promoting democratic participation, public sector reform has increasingly emphasized cost reduction. Increased autonomy for administrative agencies and local governments has been accompanied by new forms of accountability to the central government, which has increasingly stipulated desired outputs and budgetary constraints while leaving it to managers to determine how to deploy the organization's resources. To encourage long-term improvements in efficiency, the government also began to allow unit managers to retain a share of user fees in the 1980s. Exemplifying a general trend among OECD countries, the administrative mechanisms of the Swedish welfare state increasingly mimic those of private corporations.[33]

While a number of state agencies were transformed into state-owned corporations in 1985–95 and thus moved off the government budget altogether, many state-owned corporations have been at least partially privatized. As a result of rationalization as well as privatization, employment in the Swedish state enterprise sector fell from 330,000 in 1980 to 210,000 in 1994.[34] The social democratic approach to privatization in the 1980s clearly excluded welfare-related services, but during the bourgeois coalition government of 1991, a number of new legislative enactments promoted private alternatives to state-provided services, and these measures were not reversed when the social democrats returned to power in 1994. State subsidies are now available on a restricted basis for private child care and education, and the so-called house doctor system has introduced an element of private practice into health care. From 1988 to 1994 private employment increased from 1 percent to 5 percent in child care, and from 6 percent to 7 percent in health care.[35]

In comparison with the British case, Swedish privatization has been very limited in its scope. In the U.K. the labor force of nationalized industry fell from 1.8 million in 1979 to less than half a million in 1997.[36]

[33] Cf. Herman Schwartz, "Small States in Big Trouble: State Reorganization in Australia, Denmark, New Zealand, and Sweden in the 1980s," *World Politics* 46 (July 1994). See also Colin Fudge and Lennart Gustafsson, "Administrative Reform and Public Management in Sweden and the United Kingdom," *Public Money and Management* 9 (Summer 1989); and Rune Premfors, "The 'Swedish Model' and Public Sector Reform," *West European Politics* 14 (July 1991).

[34] Ringqvist (fn. 21), 78.

[35] Ibid., 106. Cf. Sven Olsson, *Social Policy and Welfare State in Sweden* (Lund: Arkiv, 1993), chap. 4.

[36] Trevor Colling and Anthony Ferner, "Privatization and Marketization," in Paul Edwards, ed., *Industrial Relations* (Oxford: Blackwell, 1995), 493.

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In contrast to Sweden, the effort to shrink and marketize the state led Britain's conservative governments to increase central government control over local governments and other units. At the same time the civil service has been subject to a series of reforms intended to reduce staffing levels, to increase managerial flexibility, and to make departmental cost centers more accountable for financial performance. Of more immediate relevance to our present concerns, the Tories introduced market principles into the National Health Service and the state education system for England and Wales in the late 1980s. In both areas authority for budgetary and personnel decisions was devolved to unit-level managers. NHS hospitals were converted to trusts and now have the status of public corporations, with the ability to borrow independently for capital expenditure and to retain operating surpluses. General practitioners may now opt out of the NHS and establish a fund-holding practice to which the central government allocates a budget. Fund-holding GPs, hospital trusts, and health authorities are expected to contract independently for the services they require.[37] Schools have also been given the possibility of opting out of local government control to become grant-maintained institutions, receiving funding directly from the central government. While school principals have gained responsibility for personnel and budgetary decisions, parents have gained the right to choose schools for their children. School and hospital budgets are now largely determined by the number of students and patients they attract, increasing the incentives for unit managers to economize on costs.

The Tories also sought to increase private provision of education and health services by subsidizing tuition for private school and premiums for private health insurance. From 1979 to 1991 the number of private health insurance policyholders increased from one million to three million.[38] By compelling unit-level managers to subject stipulated contracts to an open-bidding procedure referred to as compulsory competitive tendering, the government encouraged private competition in hospital cleaning, catering, and laundry services, as well as in local government services. From 1979 to 1994 private employment increased from 15.9 percent to 39.6 percent of total health-related employment.[39]

In Sweden and the U.K. alike, public sector restructuring has involved a sustained effort to decentralize wage-setting mechanisms within the public sector so as to allow unit managers to respond more

[37] David Winchester and Stephen Bach, "The State," in Edwards (fn. 36), 311–14.
[38] *Economist*, June 6, 1992.
[39] Central Statistical Office (London), *Economic Trends*, no. 495 (1995), 17.

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effectively to local labor-market conditions and to incorporate productivity-enhancing incentives into their pay systems.[40] The significance of the decentralization of wage setting within the public sector should be seen against the background of public sector wage bargaining in both countries taking on a particularly solidaristic cast from the late 1960s onward. With public sector wage compression putting pressure on private employers to raise the relative wages of unskilled workers, especially women, the expansion of public sector employment contributed to the decline of overall wage inequality in this period.[41]

As Table 10 indicates, aggregate wage dispersion remained more or less constant in the British public sector, while it rose steadily in the private sector from 1984 to 1995. However, significant dispersion occurred among both men and women working in the public sector. In the course of the 1980s the dynamics of public sector wage setting became distinctly less solidaristic, and there is every reason to believe that this change is, in part, attributable to market-oriented reforms. At the same time, of course, public sector employment cutbacks and privatization have served to shift labor from the public sector (with more compressed wage differentials) to the private sector (with less compressed wage differentials). At least in the British case, not only has the welfare state failed to keep up with rising market inequality in recent years, but welfare-state restructuring has itself been a source of rising market inequality.

The question of how market-oriented reforms of the public sector have affected quality of services and equality of access is of central importance, but there is very little systematic evidence on this score and it is virtually impossible to separate the effects of marketization from the effects of cutbacks. While consumer choice has been the focus of much of the rhetoric in support of public sector reforms, critics of Thatcherism argue that marketization has undermined universal access to high-quality services by generating both regional and status tiers within the welfare state. The fact that an increasing number of middle-class Britons opt for private alternatives over free public services is indicative of the deterioration in quality and, at the same time, signals a source of inequality. According to the well-respected King's Fund Institute, patients of fund-holding general practitioners routinely receive preferen-

[40] See Lois Wise, "Whither Solidarity? Transitions in Swedish Public-Sector Pay Policy," *British Journal of Industrial Relations* 31 (March 1993); and R. F. Elliott and K. Duffus, "What Has Been Happening to Pay in the Public Service Sector of the British Economy?" *British Journal of Industrial Relations* 34 (March 1996).

[41] Cf. Pontusson (fn. 9); and Rueda and Pontusson (fn. 12).

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TABLE 10
WAGE DISPERSION (90–10 RATIOS) AMONG PUBLIC AND PRIVATE EMPLOYEES IN THE U.K. (1978–95)

	1978	*1985*	*1995*
Men			
public	2.28	2.60	2.80
private	2.41	2.98	3.44
Women			
public	2.28	2.40	2.58
private	2.20	2.40	3.05
Both sexes			
public		2.75	2.72
private		3.21	3.66

SOURCE: National Statistical Office, *New Earnings Survey* (London, various editions).

tial treatment in the NHS system.[42] In a similar vein, Swedish research shows that the reorganization of elderly care "has affected working class elderly much more than it has others."[43]

CONCLUSION

Though the willingness of citizens to pay taxes obviously varies with the political circumstances, there is surely something to the idea that the overall level of taxation has reached its upper limits in many OECD countries. At the same time the combination of sluggish productivity growth and mass unemployment since the late 1970s has meant that government revenues at a given rate of taxation have grown more slowly than they did in the 1950s and 1960s, and the internationalization of financial markets has constrained the ability of government to engage in long-term deficit spending. Together, these factors have put downward pressure on overall government spending.

The fact that the British and Swedish welfare states have become less service-oriented can partly be explained in terms of demographic changes and the maturation of social insurance systems (the extension of full pension benefits to all retired people). In these and other OECD countries final government consumption expenditure continued to grow (in real terms) through the 1980s; it simply grew less rapidly than spending on social security transfers. However, it would also appear to

[42] David McKie, *The Guardian Political Almanac 94/95* (London: Fourth Estate, 1994).
[43] Sunesson et al. (fn. 16), 25.

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be the case that governments have preferred cutting the public sector to cutting entitlement programs, and it is first and foremost the service components of welfare states that have been reformed according to market principles. This pattern of retrenchment and restructuring does not seem to accord well with Pierson's assessment of the political risks entailed when politicians challenge entrenched interests, following from the common public choice argument that concentrated interests generally prevail over diffuse interests, for public sector employees constitute the entrenched pro-welfare constituency par excellence.

What, then, accounts for the antiservice bias of welfare-state retrenchment? Several arguments seem plausible. Consistent with Pierson's emphasis on the politics of blame avoidance, one might argue that the effects of cutting the public sector are less immediate and less tangible (or less visible) than the effects of cutting entitlement programs. Public sector cutbacks will likely result in a deterioration in quality and this in turn might result in middle-class opt out, but such deterioration will not necessarily be proportionate to spending cuts and no one knows at which point middle-class opt out becomes a serious problem. Even social democratic politicians are likely to find the risks involved here more palatable than those entailed in cutting pension or unemployment benefits.

Second, the popular legitimacy of programs based on the social insurance principle might be invoked to explain the antiservice bias of recent cutbacks. As Esping-Andersen argues with reference to the welfare states of continental Europe, the consensual manner in which such programs were developed and the sense of entitlement that the insurance system produces make it very difficult to reform these transfer programs.[44] Third, the preference for social-insurance welfarism may reflect anxieties about further European integration, insofar as EU legislation outlaws discrimination on the basis of nationality. Since social-insurance benefits are typically based on income from employment, such programs sidestep the political problem of foreigners taking advantage of generous benefits.[45]

Most importantly perhaps, the patterns of retrenchment we have documented might be seen as a response to political pressure from a cross-class coalition of employers and workers in the export and multinational sectors. Both Peter Swenson and Herman Schwartz argue that

[44] Esping-Andersen, "Welfare States without Work," in Esping-Andersen (fn. 18).

[45] Cf. Wolfgang Streeck, "Neo-Voluntarism: A New European Social Policy Regime?" in Fritz Scharpf, Philippe Schmitter, and Wolfgang Streeck, eds., *Governance in the European Union* (London: Sage, 1996).

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with increased openness and intensified international competition, workers and employers in exposed sectors become acutely concerned with containing the upward pressure on domestic costs generated by large public sectors.[46] In this context a new political-economic cleavage between sheltered and exposed sectors opens up and the exposed sector coalition exerts increasing pressure for public sector reform. It is important to recognize that this coalition is based on compromise among its constituent units, rather than on a complete convergence of interests. Left to their own devices, export-oriented employers would probably have favored across-the-board cuts in the welfare state, but the maintenance of basic social insurance entitlements is a condition for private sector unions to support public sector cutbacks and reforms.

This coalitional account works better for some countries than for others. In the British case electoral support for Thatcherism certainly had a broad cross-class character, but Mrs. Thatcher's efforts to restructure the public sector did not involve the cooperation of private sector unions, and business support came mainly from the financial sector rather than from export-oriented manufacturers. The British case would have to be couched in terms of a cross-class coalition centered on financial interests, including the financial interests of working-class homeowners and shareholders, and forged electorally rather than organizationally.

Thinking about public sector restructuring in these terms, it should be noted that market-oriented reforms have had different consequences for different segments of the public sector labor force. In the British case the ratio of median public sector to private sector wages for blue-collar workers fell from 1.05 in 1984 to .98 in 1995, but the public-private ratio for white-collar workers remained stable at 1.09–1.10.[47] This divergence of fortunes helps explain why public sector unions were not able to mobilize more effective resistance to market-oriented reforms.

In his analysis of Thatcherism and Reaganism, Pierson distinguishes between "programmatic" and "systemic" retrenchment. While programmatic retrenchment refers to reductions in spending or benefit levels, the introduction of means testing, and so on, systemic retrenchment entails long-term changes in the political environment that make the welfare state vulnerable to future attacks. Largely on the basis of public-opinion polls, which show that popular support for core components of the welfare state remains strong, Pierson argues that further, more

[46] Schwartz (fn. 33); and Swenson, "Labor and the Limits of the Welfare State," in Miriam Golden and Jonas Pontusson, eds., *Bargaining for Change* (Ithaca, N.Y.: Cornell University Press, 1992).

[47] National Statistical Office, *New Earnings Survey* (London, various editions).

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drastic welfare-state curtailments are unlikely in the British case.[48] However, the contrast between the Labour Party's dismal electoral performance in the 1980s and early 1990s, when it stood stoutly by traditional welfarism, and its recent electoral triumph as a revamped party committed to fiscal rectitude and low taxes suggests that the meaning of public opinion polls may be more ambiguous than Pierson allows. From the perspective adopted here, it is striking that Pierson's discussion of systemic retrenchment in the U.K. does not consider the impact of Thatcherite policies on public sector unions. In the 1960s and 1970s unionized public sector employees emerged as a key political constituency for the Labour Party and the welfare state. The cutbacks and restructuring described above have clearly weakened the market power of public sector unions and their ability to mobilize politically. In some instances, market-oriented reforms have also created incentives for them to eschew "political unionism" in favor of a more economistic or professional orientation.[49]

As public sector employees constitute a key constituency of parties on the left in most countries, the idea that public sector reform represents a form of systemic retrenchment as well as programmatic retrenchment would seem to be more broadly applicable. Despite the absence of politicians attacking the welfare state in Thatcher fashion, political and economic conditions in the second half of the 1990s are surely more favorable to welfare-state cutbacks and restructuring than they were in the second half of the 1980s. In Western Europe this is also a result in some measure of the constraints imposed by the Maastricht criteria for monetary union. Whether the current contractionary environment represents a transitional phase or a more permanent condition remains an open question, with important implications for the future of the welfare state.

Whereas Pierson essentially accepts the class-power model associated with Korpi as a valid explanation of postwar welfare-state expansion and argues that the politics of the welfare state have fundamentally changed, we believe that the coalitional approach suggested here sheds light on the past as well as the present. Societal interests and coalitional alignments have changed, but there is no need to invent a new set of analytical categories in order to explain current patterns of welfare-state retrenchment and restructuring.

[48] Pierson (fn. 1, 1994), 146–61.

[49] See Richard Clayton, "Confronting the Market: Public Sector Unions and Market-Oriented Reform in British Health Services and Education" (Paper presented at the conference on Distributive Dimensions of Political Economy, Center for European Studies, Harvard University, March 1–3, 1996).

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POLITICAL INSTABILITY AND ECONOMIC PERFORMANCE
Evidence from Revolutionary Mexico

By STEPHEN HABER and ARMANDO RAZO*

I. INTRODUCTION

WHAT is the relationship between political instability, institutional change, and economic growth? This article employs institutional analysis and microeconomic data and techniques to analyze a canonical case of political instability and dramatic institutional change: revolutionary Mexico. We review two propositions of the extant theoretical and empirical literature: these predict that both political instability and institutional changes which reduce property rights have a negative impact on economic performance. Our results suggest that there is no necessary connection between political instability and the security of property rights. They also suggest that entrepreneurs may be much less sensitive to political instability than is indicated in the extant literature. Finally, the results indicate that entrepreneurs will continue to invest as long as rights to property in their particular areas of activity are not abrogated, even if other areas of activity are being expropriated.

We focus on revolutionary Mexico because it is an extreme case of the set of conditions that, according to the literature, should give rise to decreased investment and growth: the political system moved from a prolonged period of stability to a prolonged period of instability, punctuated by one of the great social revolutions of the modern world; regulatory policies changed in ways that should have worked to discourage private investment; and property rights became less certain (assets were subject to expropriation). As such, it provides a natural experiment for testing the impact of instability—if the implicit models in the literature

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are accurate depictions of how real-world polities and economies interact, we should find dramatic disinvestment and economic stagnation in Mexico during and after the revolution of 1910.[1]

Our analysis focuses on Mexico's manufacturing industry, an economic sector that should have been highly sensitive to the institutional and political changes of the period under study. We develop data sets from published and archival sources at both the firm and the industry level in order to assess the impact of political instability and institutional change on investor expectations, rates of ownership turnover, new investment in plant and equipment, output, industrial structure, labor productivity, and total factor productivity.[2]

The following section of the paper discusses the extant theoretical and empirical literature on political stability and economic growth. The third section discusses the theory that underlies our analysis. The fourth section presents a brief history of political and institutional change before, during, and after the Mexican Revolution of 1910–19. The fifth section develops econometric evidence at the microeconomic level to assess the implications of the theory discussed in section three. The sixth section concludes.

II. Review of the Extant Literature

The interaction of revolution and economic growth was first studied by historical sociologists and comparative political scientists interested in how revolutions affected the political roles played by various social classes in the transition from agrarian economies to modern industrial ones. This literature indicates that revolutions may have either positive

[1] Following Alexander George, we employ revolutionary Mexico as a "disciplined-configurative" case study, whose purpose is to evaluate and build general theories. For a discussion of the use of single historical cases in theory building, see Alexander L. George, "Case Studies and Theory Development: The Method of Structured, Focused Comparison," in Paul Gordon Lauren, ed., *Diplomacy: New Approaches in History, Theory, and Policy* (New York: Free Press, 1979). In general, there is no agreement on appropriate definitions of revolutions and political instability. Scholars such as Skocpol have argued that there are fundamental differences between political and social revolutions. See Theda Skocpol, *States and Social Revolutions: A Comparative Analysis of France, Russia, and China* (Cambridge: Cambridge University Press, 1979), 4–5. This paper provides an analytical framework with consistent definitions of these terms for systematic studies of the relationship between instability and growth. Our point of departure is the idea that the transformation of institutions in most societies is endogenized within the existing political system. When conflict can no longer be mediated peacefully and without regime change, we have conditions, to be made explicit below, that may lead to instability and revolutions.

[2] Our data sets include information from virtually all of the extant mechanized manufacturing industries in Mexico during the period under study, including the steel, cement, tobacco products, paper, beer brewing, cotton and wool textile, and soap and glycerin industries. Because the data sets pertaining to Mexico's largest and most geographically dispersed manufacturing industry—cotton textiles—are particularly detailed, we focus much of our discussion on the econometric analysis of that industry.

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or negative long-term economic consequences (depending on the particular economic and social policies of postrevolutionary governments). In the short run, however, revolutions create dislocations that are largely negative for economic development.[3] The ability of this literature to pin down the causal connections between revolutions and growth, however, is limited by the haphazard presentation of economic data and the absence of logically consistent and empirically testable models.[4] A related body of literature, written by Latin American historians, has tried to assess the impact of postindependence political instability on nineteenth-century growth, but it suffers in large part from similar theoretical and methodological problems. Its results are also qualitatively inconclusive: even countries in which independence was not accompanied by instability (such as Brazil) did not grow in the nineteenth century.[5]

In recent years a second body of literature, often identified with growth theory, has developed. Although this literature has stressed the negative consequences of political instability for economic growth,[6] it has not yet developed a theoretical model of how growth and political stability interact (there does not exist, in fact, consensus on the appropriate theoretical framework to guide empirical work on growth).[7] The implicit model in this literature can, however, be summarized as follows: unstable political systems result in less secure property rights, a situation that discourages long-term investments in physical capital and thereby dampens the rate of economic growth.[8]

[3] See, for example, John Dunne, *Modern Revolutions: An Introduction to the Analysis of a Political Phenomenon* (Cambridge: Cambridge University Press, 1972), 3; Skocpol (fn. 1), 175–205, 218–29, 265–74; Barrington Moore, Jr., *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston: Beacon, 1967), 40–110.

[4] These studies also tend to select cases on the dependent variable, limiting their ability to explain the causes of revolutions. See Barbara Geddes, "How the Cases You Choose Affect the Answers You Get: Selection Bias in Comparative Politics," in James A. Stimson, ed., *Political Analysis: An Annual Publication of the Methodology Section of the American Political Science Association,* vol. 2 (Ann Arbor: University of Michigan Press, 1991).

[5] Samuel Amaral and Leandro Prados de la Escosura, eds., *La Independencia Latino Americana: Consecuencias Económicas* (The economic consequences of Latin American independence) (Madrid: Alianza Editorial, 1993).

[6] See, for example, John B. Londregan and Keith T. Poole, "Poverty, the Coup Trap, and the Seizure of Executive Power, " *World Politics* 42 (January 1990); Alberto Alesina et al., "Political Stability and Economic Growth," *Journal of Economic Growth* 1 (June 1996); Robert J. Barro, "Economic Growth in a Cross Section of Countries," *Quarterly Journal of Economics* (May 1991); John B. Londregan and Keith T. Poole, "The Seizure of Executive Power and Economic Growth: Some Additional Evidence," in Alex Cukierman, Zvi Hercowitz, and Leonardo Leiderman, eds., *Political Economy, Growth, and Business Cycles* (Cambridge: MIT Press, 1992).

[7] Ross Levine and David Renelt, "A Sensitivity Analysis of Cross-Country Growth Regressions," *American Economic Review* 82 (September 1992), 943.

[8] Alesina et al. (fn. 6), 191–92.

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This body of literature proceeds inductively, employing cross-sectional and pooled regression techniques to identify the statistical relationships between various economic and political features of societies and their economic performance. There are, however, a number of well-known limitations to these kinds of cross-country growth regressions. In the first place, as Alesina et al. have pointed out, while many studies have demonstrated a negative correlation between economic growth and political instability, it is not clear which way causality runs.[9] Second, there are econometric considerations that make these estimates dubious. As Levine and Renelt have shown, the statistical results of these exercises tend to be highly sensitive to the number of observations, the choice of cases, and the specification of the regressions.[10] In addition, under political instability, the structural parameters of given specifications are constantly changing or may be indeterminate, so that estimates, even if they come from a reduced-form equation, are not stationary. Third, the instruments available for measuring political stability or the security of property rights are poorly developed. Given the complexity of the phenomenon, any attempt to measure political stability and the security of property rights by a set of instrumental variables is likely to be an extremely imprecise exercise.[11]

A third body of literature, the new institutionalism, argues that, all things being equal, societies that create institutions (the laws, rules, and informal agreements within societies that guide economic or other types of social behavior) that clearly specify and enforce property rights, that ease the enforcement of contracts, and that force governments to make credible commitments to limit their ability to manipulate economic rules to their own advantage will be more successful than others in achieving faster rates of economic growth.[12]

[9] Ibid., 190; Barro (fn. 6), 432. Londregan and Poole note that it may not be political instability that gives rise to slow rates of growth, as much as it is the presence of unconstitutional rulers. But the causality issue is still not resolved, as it is generally the case that unconstitutional rulers often come to power in times of political instability. See Londregan and Poole (fn. 6, 1992). Some political scientists, while noting an unclear link between instability and growth, have argued in the opposite direction that growth produces instability through factors that increase social frustration at a faster rate than the rate of the increase in material well-being. See Samuel P. Huntington, *Political Order in Changing Societies* (New Haven and London: Yale University Press, 1968), 49–59.

[10] Levine and Renelt (fn. 7), 943.

[11] Barro, for example, employs the number of revolutions and coups per year and the number of political assassinations per million population as measures of instability, and then goes on to "interpret [these] variables as adverse influences on property rights." See Barro (fn. 6), 432. Other investigators have tried to refine these measures. See Alesina et al. (fn. 6).

[12] Douglass C. North, *Institutions, Institutional Change, and Economic Performance* (Cambridge: Cambridge University Press, 1990), chap. 1; Douglass C. North and Barry R. Weingast, "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth Century England," *Journal of Economic History* 44 (December 1989), 808. Leonid Hurwicz, "Toward a

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Surprisingly, most of the empirical studies emanating from the new institutionalism have focused on cases in which the political system was stable and institutional change occurred incrementally.[13] Some researchers have examined the economic implications of revolutionary change in societies in which revolutions enhanced the security of property rights.[14] These are, however, only partial and weak tests of the theory. If enhancements of property rights have a positive impact on economic growth, then it should follow that revolutions in which property rights are made less certain should have negative consequences for growth. Similarly, if growth is enhanced when governments make credible commitments not to manipulate economic policy for their own ends, then it should follow that revolutions in which governments do not make credible commitments of this type should have negative consequences for growth. The literature to date, however, has tended not to address these types of cases. Yet the ideal tests of the basic propositions of the new institutionalism are precisely those cases where polities moved from stability to instability, where property rights became less certain, and where institutions became subject to change in an indeterminate direction.

III. Theory: Political Stability, Institutions, and Economic Growth

Our analytical framework stems from two basic propositions that describe the interaction of politics and economics. First, there is a political system that functions as the institutional umbrella under which individual agents operate.[15] Second, not only are economic agents restricted by the regulations of the political system but—and we believe this is crucial—they can also respond in various ways to impose institutional and political change, as well as to mitigate the impacts of institutional change on themselves.

Framework for Analyzing Institutions and Institutional Change," in Samuel Bowles, Herbert Gintis, and Bo Gustafsson, eds., *Markets and Democracy: Participation, Accountability, and Efficiency* (Cambridge: Cambridge University Press, 1993); Avner Greif, "Microtheory and Recent Developments in the Study of Economic Institutions through Economic History," in David M. Kreps and Kenneth F. Wallis, eds., *Advances in Economic Theory*, vol. 2 (Cambridge: Cambridge University Press, 1997).

[13] See, for example, Lee J. Alston, Thráinn Eggertsson, and Douglass C. North, eds., *Empirical Studies in Institutional Change* (Cambridge: Cambridge University Press, 1996).

[14] Jean Laurent Rosenthal, *The Fruits of Revolution: Property Rights, Litigation, and French Agriculture, 1700–1860* (Cambridge: Cambridge University Press, 1992); North and Weingast (fn. 12). For a critique of North and Weingast, see Gregory Clark, "The Political Foundations of Modern Economic Growth: England, 1540–1800," *Journal of Interdisciplinary History* 26 (Spring 1996).

[15] Informal institutions, such as social norms and customs, although created outside of the political system, can sometimes be as important as formal institutions if the formal political system alone does not preclude them.

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We define a political system as a closed system in which institutions guiding its current functioning as well as its evolution are created endogenously.[16] The political system is the primary source of formal, legally sanctioned regulations and institutional change. It is itself governed by legally sanctioned, formal institutions that can be grouped under two major divisions: those that determine the selection mechanism to replace governments and those that manage political action among agents with potentially conflicting views.[17] One major purpose of these institutions is to decrease uncertainty about the future governance structure of a society.

A political system is stable, or self-preserving, if (1) there is common knowledge about the selection mechanism to replace governments and the rules that manage political action, and if (2) the institutional arrangements that specify this political system become self-enforcing. These conditions imply that there is one and only one effective political system in place at any given time.[18] Thus, the key feature of stability is *continuity*, in the sense that the one political system in place can always be anticipated, which allows agents to adapt to both expected and actual changes.[19]

[16] This is only a simplifying assumption that facilitates the analysis. One can incorporate international aspects by including foreign elements in the set of agents operating under a particular system. We can also include other international factors through exogenous shocks, described below under political instability, such as the support of a foreign government to a particular faction fighting for a regime change.

[17] Our framework is not exclusive of rules—for example, constitutional restraints on the executive branch—that regulate a government after its selection. These could be included under the second group of rules where the constituents may agree to be governed by a government if the latter conforms to an agreed-upon set of rules (a constitution). That is, the government—if we assume it has its own objectives—can be one of the agents whose actions are being mediated through the political system, meaning, that the political system provides rules for the interaction (and permissible behavior) of government and society. Our distinction between a political system and government is similar to the conventional distinction between regimes and governments. However, we prefer the term political system because it reflects the ongoing interaction of its elements as opposed to the static definition of regime as a form of government.

[18] Self-enforcement implies only that there are no incentives to deviate, not that everyone is satisfied with the existing political system. It can occur, for example, under two extreme sets of political conditions: (1) all agents, free to make their own decisions, find it advantageous to sustain the system (that is, cooperation is a Nash equilibrium in a game where the different players agree on the system that governs them); or (2) the government, possessing an effective enforcement technology, may impose severe sanctions on players who deviate from the rules (as in a dictatorship). Notice that this is not a game that defines static rules but rather one where agents agree on *how* to mediate their conflicting views in the present and future periods. Since this is essentially a repeated game, we also employ the term "stable" in a dynamic sense, meaning that the political system is in a steady state of "cooperation" such that small deviations (brought about by internal or external shocks to the system) do not affect its long-run equilibrium. Thus, we will use the terms "stable political system" and "political equilibrium" interchangeably.

[19] This is not to say that endogenous institutional change does not have an effect on the economy. Even if we assume rational expectations, institutional changes—economic policy, in particular—may have a real effect on the economy if, for example, the government has an informational advantage over private agents or if there are nominal price rigidities. Our statement is simply one of forward-looking agents that are constantly adapting to their perceived institutional environment.

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A political system therefore becomes unstable when its continuity is no longer sustainable. We differentiate between two types of instability, depending on their source. The first type, occurring when there is lack of common knowledge about the (global) political system, denotes a situation of *weak instability*. It corresponds to the case where there are, in effect, multiple alternative political systems competing for the governance of society because different agents face or perceive different institutional environments. An example of this may occur, for instance, in geographically distant and dispersed entities with de facto local political systems due to infrequent monitoring by a central authority. We have a case of *strong instability*, however, when some political shocks, which would otherwise be internalized or dissipated, become credible threats to the continuity of the political system. These threats lead to a situation of multiple competing systems where institutional change ceases to be endogenous and is instead subject to the outcome of a systems war, thus creating uncertainty as to which system will ultimately prevail.

Although both cases of instability lead to incomplete information regarding the future governance structure, the second one involves agents purposefully deviating from the original equilibrium, recurring to either violence and/or diversion of productive resources to influence the determination of the next prevailing political system. We further denote instances of *strong instability* as *ex ante revolutions* because by being potentially capable of removing the current system, they bring about a discontinuity in the evolution of the political system. Stability is restored upon determination of the new political equilibrium and we have a case of *ex post revolution* if the new system involves institutional changes with respect to the old equilibrium.[20]

Instability refers to a transition period (that is, it is a short-term phenomenon) between two stable political equilibria where the second political equilibrium is not known a priori. From a theoretical point of view, studying the impact of instability on economic performance is different from comparing the economic impact of two different political equilibria—which would be an exercise in comparative statics. In

[20] Notice that our definitions of revolution focus on procedures, which is consistent with our analysis of institutions as rules that constrain social behavior. Thus, exogenous institutional change is revolutionary only because it is not mediated through the existing system. This is a definition that can be used more systematically than one that focuses on the extent and direction of change, in which there is substantial disagreement about the threshold levels beyond which changes can be classified as revolutionary. Most importantly, our definition links revolutions and instability in a consistent and systematic way. By contrast, other definitions of revolutions as drastic institutional changes preclude the joint study of stability issues simply because any stable political system is capable in principle of producing such changes.

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contrast, instability is primarily characterized by the indeterminacy of institutional change; its exact nature will depend on its duration, the number and types of competing systems (that is, the intended directions of institutional change), and the information sets of individual agents.

We identify four channels through which, in theory, instability affects economic performance.[21] First, instability may make property rights less secure irrespective of the types of competing political systems simply because property rights are in the public domain to be seized by those with the power and inclination to appropriate them. Successful political factions may have strong incentives to appropriate these rights because they need to reward their members and may wish to punish their opponents.[22] This discourages long-term investment in physical capital because the returns to those investments are uncertain. It also discourages economic exchange, because the purchasers of assets discount their value to cover risk premia. Determining the correct discount rate ex ante is difficult, which means that markets may not function smoothly and allocative inefficiencies may result.

Second, the absence of a unique political system makes it difficult to predict with any degree of certainty the identity of future governments and the dynamics of future institutional change.[23] With an increasing number of competing systems, the complexity (defined here simply as computational cost) of agents' decisions increases. This may shorten the time horizon of investors, who may opt not to invest in long-term projects (because they fear a policy change or expropriation) or to move their resources to safer and more predictable institutional environments.

Third, political instability may increase the probability that individuals will engage in rent seeking. In an unstable political environment factors that could constrain opportunism may not come into play because penalties are unenforceable and because economic agents may operate with short time horizons. Instability may then affect economic performance by diverting resources to unproductive purposes.[24]

[21] The first two channels can be thought of as direct effects since they stem directly from the existence of instability. The second two are indirect effects since they may occur under other circumstances as well.

[22] North (fn. 12), 33–34; Clark (fn. 14), 564.

[23] It is in this sense that we use the terms "political uncertainty" and "political instability" interchangeably: if agents are unable to assess the likelihood of many possible future governments and/or institutional arrangements (as in Knightian uncertainty), the stability of the political system can no longer be preserved.

[24] Gordon Tullock, "The Welfare Costs of Tariffs, Monopolies, and Theft," *Western Economic Journal* 5 (June 1967); Anne O. Krueger, "The Political Economy of the Rent-Seeking Society," *American Economic Review* 64 (June 1974); Richard A. Posner, "The Social Costs of Monopoly and Regulation,"

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Fourth, when political struggles involve the use of force, property, including factors of production, may be destroyed, which may result in decreased output. This may also discourage investment and exchange because the future value of assets is uncertain.[25]

Economic agents do, however, have at their disposal mechanisms by which to mitigate the impact of instability. First, if instability is long-lived, agents may be able to observe regularities in the unstable environment and adapt accordingly. For example, the complexity and indeterminacy of instability may diminish over time as competing systems are weeded out of the game and it becomes easier to predict potential winners. Second, agents may purposefully invest resources to mitigate the negative impact of instability. For instance, agents may make payments and/or ally themselves with particular factions in return for a promise that property will not be destroyed or confiscated. The implication of these two mechanisms is that it is the unexpected shocks of instability that have the most negative impact on economic performance because they do not allow agents to prepare in advance. Third, economic activity may continue despite the negative impact of instability because agents may be forced to recoup sunk investments. Thus, instability may have differential impacts on different industries because of asset-specificity considerations.

In summary, instability can have a short-term negative impact, but its net magnitude may depend on the nature of the instability and the response of economic agents. The long-term effects of political instability are harder to identify because they get entangled with institutional changes following restoration of a new political equilibrium.

IV. Politics and Institutions before and after the Revolution

From 1876 to 1911 Mexico witnessed a long period of political stability and economic growth under the dictatorship of General Porfirio Díaz. During that period the selection mechanism for the government was well defined and common knowledge to all: although he held presidential elections, Díaz remained the effective head of state in all in-

Journal of Political Economy 83 (August 1975); Anne O. Krueger, "Virtuous and Vicious Circles in Economic Development," *American Economic Review* 83 (May 1993); Andrei Shleifer and Robert W. Vishny, "Corruption," *Quarterly Journal of Economics* 108 (August 1993); Kevin M. Murphy, Andrei Shleifer, and Robert W. Vishny, "Why Is Rent-Seeking So Costly to Growth?" *American Economic Review* 83 (May 1993); Paolo Mauro, "Corruption and Growth," *Quarterly Journal of Economics* 10 (August 1995).

[25] Clark (fn. 14), 565.

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stances. The mechanisms to manage political interaction were also clearly defined, with political authority centralized around Díaz and his close associates in Mexico City through a shrewd combination of rigged elections, strategic concessions to provincial political bosses, the creation of a political machine, and outright repression.[26]

Díaz undertook a wholesale revision of Mexico's economic institutions, to promote investment in an economy that had scarcely grown since Mexico's independence from Spain in 1821.[27] At the base of these reforms was the specification of more clearly defined property rights. Other laws encouraged industrial investment (through import tariffs, tax incentives, and general incorporation laws) and regulated the growing banking industry.[28] The result of Díaz's institutional reforms was a period of rapid economic growth driven by a wave of foreign and domestic investment. By the 1890s Mexico was achieving real rates of GDP growth of 2.5 percent per year.[29]

Growing social discontent with the distribution of political power and economic resources led the commercial and agricultural elite of the Northern border states, seeking limited political goals, to begin the ex

[26] Laurens Ballard Perry, *Juárez and Díaz: Machine Politics in Mexico* (Dekalb: Northern Illinois University Press, 1978); Friedrich Katz, "Mexico: Restored Republic and Porfiriato, 1867–1910," in Leslie Bethell, ed., *The Cambridge History of Latin America*, vol. 5, *1870–1930* (Cambridge: Cambridge University Press, 1986).

[27] John H. Coatsworth, "Obstacles to Economic Growth in Nineteenth Century Mexico," *American Historical Review* 83, no. 1 (1978); Richard J. Salvucci, "Mexican National Income in the Era of Independence, 1800–45," in Stephen Haber, ed., *How Latin America Fell Behind: Essays on the Economic Histories of Brazil and Mexico, 1800–1914* (Stanford, Calif.: Stanford University Press, 1997). Government estimates of GDP can be found in Instituto Nacional de Estadística, Geografía, e Informática (INEGI), *Estadísticas Históricas de México* (hereafter cited as *Estadísticas Históricas*) (1994), 401–2.

[28] For a discussion of these institutional reforms, see Edward Beatty, "The Political Basis of Industrialization in Mexico before 1911" (Ph.D. diss., Stanford University, 1996); Robert H. Holden, *Mexico and the Survey of Public Lands: The Management of Modernization, 1876–1911* (DeKalb: Northern Illinois University Press, 1994); Noel Maurer, "Finance and Oligarchy: Banks, Politics, and Economic Growth in Mexico, 1876–1928" (Ph.D. diss., Stanford University, 1997); Coatsworth (fn. 27); Enrique Cárdenas, "A Macroeconomic Interpretation of Nineteenth-Century Mexico," in Haber (fn. 27).

[29] For discussions of the Porfirian economic transformation, see Stephen H. Haber, *Industry and Underdevelopment: The Industrialization of Mexico, 1890–1940* (Stanford, Calif.: Stanford University Press, 1989); idem, "Assessing the Obstacles to Industrialization: The Mexican Economy, 1830–1940," *Journal of Latin American Studies* 24, no. 1 (1992); John H. Coatsworth, *Growth against Development: The Economic Impact of Railroads in Porfirian Mexico* (DeKalb: Northern Illinois University Press, 1981); Maurer (fn. 28); Beatty (fn. 28); Sandra Kuntz Ficker and Paolo Riguzzi, eds., *Ferrocarriles y vida económica en México, 1850–1950* (Railroads and economic life in Mexico, 1850–1950: From late boom to early bust) (Toluca, Mexico: El Colegio Mexiquense, 1996); Sandra Kuntz Ficker, *Empresa extranjera y mercado interno: el Ferrocarril Central Mexicano, 1880–1907* (Foreign enterprise and internal markets: The Mexican central railroad, 1880–1907) (Mexico City: El Colegio de México, 1995); Cárdenas (fn. 28); Marvin D. Bernstein, *The Mexican Mining Industry, 1850–1950: A Study of the Interaction of Politics, Economics, and Technology* (Albany: State University of New York, 1964), 17–94; Clark W. Reynolds, *The Mexican Economy: Twentieth Century Structure and Growth* (New Haven: Yale University Press, 1970), 15–26.

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ante revolution of 1910.[30] We refer to the period 1910–13 as the first phase of the revolution. The instability of this period centered upon whether or not the coalition of dissatisfied polities would succeed in permanently overthrowing the Díaz regime. Because the reformists who initiated the revolution were clearly not adverse to business interests, however, there was also no reason to believe that any drastic changes to the security of property rights would occur soon thereafter.

A second period of instability began in 1914, when the reformist coalition that was finally able to overthrow Victoriano Huerta, the leader of a Porfirian counterrevolution, was unable to agree on the institutional rules of the post-Porfirian state at their famous convention of Aguascalientes. The violent civil war, which lasted from 1914 to 1917, was a time of great instability during which two competing systems battled for supremacy: one faction, led by Emiliano Zapata and Pancho Villa, emphasized land reform and institutional changes that were clearly inimical to business interests; the other faction, a coalition of reformists from the elite classes of Mexico's Northern states, opposed land redistribution and other changes affecting their economic interests. It was also a period of widespread physical destruction of assets.

The civil war ended in military victory for the Northern elite, but subsequent institutional change had to be negotiated with the peasants and workers who were still armed. These negotiations (a compromise of commercial, peasant, and worker demands) produced the Constitution of 1917, with intended far-reaching institutional reforms in the areas of private property rights and labor relations.

The instability of the consolidation period (1917–34) did not emanate from the lack of an underlying political system (which had been the case in the violent phase of the revolution) but from remnants of political conflict that could not be resolved within the new political system and from arbitrary and weak enforcement of the new reforms.

Arbitrary selection mechanisms made it difficult for agents to predict which governments would come to power and to know ex ante their political agendas. Not only were formal rules changed (as when

[30] See Alan Knight, *The Mexican Revolution* (Cambridge: Cambridge University Press, 1987); Adolfo Gilly, *La revolución interrumpida: edición corregida y aumentada* (The interrupted revolution: Revised and expanded edition) (Mexico City: Ediciones Era, 1994); John Mason Hart, *Revolutionary Mexico: The Coming and Process of the Mexican Revolution* (Berkeley: University of California Press, 1987); John Womack, Jr., *Zapata and the Mexican Revolution* (New York: Alfred A. Knopf, 1969); Friedrich Katz, *The Secret War in Mexico: Europe, the United States and the Mexican Revolution* (Chicago: University of Chicago Press, 1981); John Womack, Jr., "The Mexican Revolution, 1910–1920," in Bethell (fn. 26).

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President Alvaro Obregón modified the no-reelection provisions of the Constitution to allow himself a second term), but the 1920s were also characterized by violent political conflict. This included three failed military rebellions (1923, 1927, 1929), the assassinations of Pancho Villa (1923) and Emiliano Zapata (1919), the assassinations of Presidents Carranza (1920) and Obregón (1928), and a church-state civil war that dragged on from 1926 to 1929. Political uncertainty was not confined solely to the federal government. In the provinces local political and military bosses fought over state governorships, sometimes establishing authoritarian fiefdoms of long duration, sometimes managing to remain in power for only months or even weeks. As was the case with the federal executive, the formal selection mechanisms for state executives were often ignored, and violence or the threat of violence replaced balloting.[31]

Weak and arbitrary enforcement of the new rules increased uncertainty about the regulatory environment under which agents operated. In fact, Mexico's first postrevolutionary president, Venustiano Carranza (1917–20), made it quite clear that even though his government was the first to operate under the Constitution of 1917, he had no intention of actually carrying out many of its provisions. Complicating matters further were state governors, who sought to curry favor with local constituencies by enacting state-level reforms or by enforcing federal laws in arbitrary ways.[32] In the end the institutional changes of the consolidation period resulted from the interaction of arbitrarily enforced formal institutional changes and informal institutions.[33]

Two major reforms that directly affected manufacturing included changes in both labor relations and property rights. Article 123 of the Constitution of 1917 brought the eight-hour day and the six-day work-

[31] Leticia Gamboa Ojeda, "La CROM en Puebla y el movimiento textil en los Años 20" (The CROM in Puebla and the textile workers movement in the 1920s), in *Memorias del Segundo Encuentro sobre historia del movimiento obrero* (Proceedings of the Second Meeting of the History of the Workers Movement) (Puebla, Mexico: Universidad Autonoma de Puebla, 1984), 41; Thomas Benjamin and Mark Wasserman, eds., *Provinces of the Revolution: Essays on Regional Mexican History, 1910–1929* (Albuquerque: University of New Mexico Press, 1990); Mark Wasserman, *Persistent Oligarchs: Elites and Politics in Chihuahua, Mexico, 1910–1940* (Durham, N.C.: Duke University Press, 1993); Romana Falcón, *El agrarismo en veracruz: La etapa radical* (The agrarian movement in Veracruz: The radical years) (Mexico City: El Colegio de México, 1977); idem, *Revolución y caciquismo: San Luis Potosí, 1910–1938* (Revolution and the political bosses: San Luis Potosi) (Mexico City: El Colegio de México, 1984).

[32] Mario Ramírez Rancaño, *Burguesía textil y política en la Revolución Mexicana* (The textile bourgeoisie and the politics of the Mexican Revolution) (Mexico City: Universidad Nacional Autónoma de México, 1987), 196–206.

[33] The absence of effective enforcement of formal institutions dates back to earlier periods. For an early account of enforcement of property rights, see Armando Razo, "Land Policy in Colonial Mexico: Exploring the Links between Institutional Development and Economic Performance" (Manuscript, Stanford University, 1996).

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week, gave workers the right to organize and strike, mandated a minimum wage, and specified that there should be equal pay for equal work.[34] In addition, Article 27 reversed Díaz's reforms of the land and subsoil laws. The residual claimant on all property rights became the government, which had the right to redistribute property for the good of the commonweal.

The antibusiness effects of these formal institutional changes were compounded by concomitant informal institutional changes. Not only were property rights in a formal sense reduced, but their security remained subject to attacks from both private citizens and a predatory state. In the countryside peasants carried out their agrarian reform—invading land belonging to others, executing landlords, and then later taking the legal steps necessary to obtain title. At the national level the government embarked on a series of both planned and ad hoc actions to nationalize and confiscate private property. The Carranza government had carried out a de facto nationalization of the banking system from 1915 to 1917, in an effort to finance the war against Villa and Zapata. Although the government eventually returned the banks to their owners in 1921, only nine of them were ever able to reopen. In addition, starting in the 1930s the government nationalized the parts of the railroad system that remained in private hands.[35]

The threat of expropriation was driven home to the factory owners in the summer of 1917, when the Carranza government sought to combat runaway inflation by removing the tariff on common cloth and lowering the tariff on fine woven goods. This effectively reduced the property rights of factory owners, because the industry relied on tariff protection for its survival. When the industrialists responded with a lockout, Carranza quickly obtained the approval of Congress to seize control of the factories.[36] After prolonged negotiations between the government and the industrialists, the seizure of the factories was headed off and tariffs were restored. The point had been made, however: Mexico's industrialists faced the twin threat of expropriation and reductions of the tariff. Moreover, since it was difficult to predict the course of political change in Mexico, these threats could reemerge at any time.

[34] Jeffrey Bortz, "'Without Any More Law Than Their Own Caprice': Cotton Textile Workers and the Challenge to Factory Authority during the Mexican Revolution," *International Review of Social History* 42, pt. 2 (August 1997), 256–57.

[35] Maurer (fn. 28), 240 and chap. 6. In fact, the owners of the banks and the owners of the factories were often one and the same group. For an account of their connections, see Rancaño (fn. 32), 95–130.

[36] Rancaño (fn. 32), 209–17.

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There were also dramatic changes in Mexican labor law. In 1910 unions were small and persecuted, workers could be fired at will, and, as members of the Mexican government often boasted, the only law that protected workers was the law of supply and demand.[37] The Constitution of 1917 not only gave workers a safety net, but it also allowed them to become extremely militant. Changes in labor law not only made Mexico's industrial workers politically powerful and favored by both state governors and the federal government, but it also directly affected labor relations on the shop floor. Thus, at the national level the government began mediating industrywide agreements between capital and labor that set standard pay rates by job classification, raised daily wage rates, and laid down detailed work rules.[38] The impact of this was that workers could actively manipulate the political system to advance their goals. In short, from the perspective of Mexican industrialists, not only were formal changes in the Constitution unfavorable to their interests, but the situation was made worse by the concurrent informal changes and political realignments.

A new stable political equilibrium was finally achieved in the mid-1930s under the Lázaro Cárdenas administration. Cárdenas was able to transform the political party that his predecessor, Plutarco Elias Calles, had created in 1929 into a corporatist party (the precursor of the contemporary Partido Revolucionario Institucional). This transformation required, however, that Cárdenas arm the worker and peasant leagues, carry out a sweeping agrarian reform, encourage the growth of unions favorable to this government, and deport Calles to Los Angeles.

V. The Structure and Performance of Industry

Surviving the Revolution

We have three reasons for beginning our empirical analysis with the determinants of firm survival. First, we want to avoid a sample selection problem in which our results may indicate that existing firms had good performance despite the revolution when, in fact, they may have survived the revolution simply because they were more efficient than the firms that failed. Second, we want to test the hypothesis that when

[37] Rodney D. Anderson, *Outcasts in Their Own Land: Mexican Industrial Workers, 1906–1911* (Dekalb: Northern Illinois University Press, 1976), 36.

[38] For instance, Luis Morones, the head of the CROM (the national labor federation) was, in fact, the minister of industry, commerce, and labor, a position he used to enrich himself by extracting rents from both factory owners and factory workers. State governors, recognizing the importance of their labor constituencies, also became champions of the labor movement. Rancaño (fn. 32), 201. Jeffrey Bortz, "The Genesis of the Mexican Labor Relations System: Federal Labor Policy and the Textile Industry, 1925–1940," *The Americas* 52 (July 1995); Bortz (fn. 34), 253–88.

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political conflict involves the use of force, property will be destroyed. Indeed, the traditional historiography suggests that the revolution destroyed the physical plant of the Mexican economy.[39] Third, we want to test hypotheses about the impact of violent conflict on economic activity. In addition, a survivorship analysis provides evidence as to which agents were better positioned to mitigate the effects of instability.

The data we have retrieved on manufacturing indicate that the vast majority of firms survived the revolution. We also find evidence that the rate at which firms failed was not particularly affected by the revolutionary period and that those firms that did go out of business tended to be very small enterprises. [40]

In the steel, cement, paper, glass, wool textile, beer, soap and glycerin, tobacco products, and dynamite and explosives industries, monopolies or oligopolies dominated their product lines in the decades prior to and following the revolution.[41] With the exception of one of the three cement firms that dominated the Mexican market (Cementos Cruz Azul) and the single firm that dominated dynamite and explosive production (the Compañía Nacional Mexicana de Dinamita y Explosivos) all of these firms survived the revolution. Moreover, the two firms that failed were not destroyed by military action. Cementos Cruz Azul was taken over by its creditors and was merged with another cement manufacturer after the revolution. The Compañía Nacional Mexicana de Dinamita y Explosivos closed its doors because the Carranza government terminated the very lucrative tax concessions under which the firm had operated since 1902. Its physical plant was purchased by the Dupont de Nemours Company and reopened in the 1920s.[42]

The cotton textile industry, for which we have detailed data on firm sizes and failure rates, allows us to examine the issue of firm survival systematically. The results indicate that most firms survived the fight-

[39] For a summary and critique of this view, see John Womack, Jr., "The Mexican Economy during the Revolution, 1910–1922: Historiography and Analysis," *Marxist Perspectives* 1, no. 4 (1978).

[40] More evidence in support of our hypothesis that agents can insulate themselves from the effects of instability comes from other lines of activity not examined in this paper. For example, petroleum extraction or mining and smelting were capital-intensive, foreign-owned enclaves that had the ability to hire mercenary armies to protect their property rights and to bring to bear diplomatic and economic pressure from foreign governments, thereby mitigating the effects of political instability. In fact, Mexican crude petroleum output grew more than fortyfold during the revolution. *Estadísticas Históricas* (fn. 27), 559. For the history of foreign petroleum companies in Mexico, see Jonathan C. Brown, *Oil and Revolution in Mexico* (Berkeley: University of California Press, 1993); and Linda B. Hall, *Oil, Banks, and Politics: The United States and Postrevolutionary Mexico, 1917–1924* (Austin: University of Texas Press, 1995).

[41] Haber (fn. 29, 1989), chap. 4; Veronica de Allende Costa and Luis Felipe López Calva, "La economía mexicana durante el Porfiriato: análisis macroeconómico e interacción entre los sectores público y privado (The Mexican economy during the Porfiriato: Macroeconomic analysis and the interaction of the public and private sectors) (B.A. thesis, Universidad de las Américas-Puebla, 1991), 198–203.

[42] Haber (fn. 29, 1989), 91–92, 143, 188.

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TABLE 1
EXIT AND ENTRY IN THE MEXICAN COTTON TEXTILE INDUSTRY
(1895–1929)

	Number of Firms		*Exit*			*Entry*		
Years	*In First Year*	*End of Period*[a]	*Number of Firms That Exit the Market Permanently*	*Firms That Exit the Industry*[b] *(%)*	*Combined Market Share (%)*	*New Firms Entering the Market within the Period*	*New Firms That Enter the Market*[c] *(%)*	*Combined Market Share (%)*
1895–1900	109	132	7	6.4	1.3	28	21.2	25.7
1900–1905	132	130	11	8.3	5.1	13	10.0	9.9
1905–1910	130	121	9	6.9	2.7	11	9.1	4.2
1910–1915	121	87	20	16.5	7.0	10	11.5	4.7
1915–1920	87	131	5	5.7	2.7	14	10.7	4.4
1920–1925	131	118	15	11.5	2.0	7	5.9	2.2
1925–1929	118	142	15	12.7	6.7	25	17.6	5.0

SOURCE: See fn. 43.

[a] This total includes those firms that exit the industry temporarily and those that have reentered the industry after a temporary exit.

[b] As a percentage of total number of firms in the beginning year of the period.

[c] As a percentage of total number for firms by the end of the period.

ing intact and that those that failed were small enterprises. Prior to the revolution, typically 6 to 8 percent of firms failed in each five-year period. During the period 1910–15, however, 16.5 percent of firms closed their doors permanently. These were very small firms, collectively accounting for only 7 percent of total industry output. In the period 1915–20 the percentage of firms failing fell to 5.7 percent, which was lower than the rate prevailing before the revolution. These firms accounted for only 2.7 percent of output (see Table 1). As striking as the low rate at which firms failed during the revolution is the fact that these firms were replaced by new entrants of roughly comparable size, an issue to which we shall return.[43]

[43] Data sources on the cotton textile industry are as follows: 1837–39 and 1841–42 data were obtained from Secretaría de Hacienda y Crédito Público (SHCP), *Documentos para el Estudio de la Industrialización de México, 1837–1845* (Mexico City: SHCP, 1977), 82; data for 1840 were partially retrieved from L. Barjau Martinez et al., "Estadísticas Económicas del Siglo XIX," *Cuadernos de Trabajo del Departamento de Investigaciones Históricas, Instituto Nacional de Antropologie é Historia* (INAH) no. 14 (Mexico City: INAH, July 1976), Table 13; and from SHCP, "Industrialización en México," 82; the 1844 census was compiled from Barjau Martinez et al., Tables 17–19; data for 1845 were obtained from Barjau Martinez et al., Tables 20–21; 1850 data were retrieved from Secretaría de Fomento, Colonización e Industria, *Memoria que la Dirección De Colonización e Industria presentó al Ministerio De Relaciones en 17 de Enero de 1852, sobre el estado de estos Ramos en el Año Anterior* (Mexico City: Secretaría de Fomento, 1852); 1854 data were obtained from Gobierno del Estado de México, *Estadística del Departamento de México* (Mexico City: Fonapas, 1980); 1857 data were obtained from Secretaría del Estado, *Memoria de la Secretaría del Estado y del Despacho de Fomento, Colonización, Industria y Comercio de la República Mexicana* (Mexico City, 1857); 1862 data were obtained from J. M. Pérez Hernandez, *Estadísticas de la República Mexicana* (Statistics on the Mexican republic) (Guadalajara: Tip. del Gobierno, 1862); 1865 data were obtained from Ministerio de Fomento, *Memoria 1865* (Mexico City: Secretaría de Fomento, 1866); 1878 data were taken from Secretaría de Hacienda, *Estadísticas de la República Mexicana* (Mexico City: Secretaría de Hacienda 1880); 1883 data were taken from A. Garcia Cubas, *Cuadro geográfico, estadístico, descriptivo é historico de los Estados Unidos Mexicanos* (Tables on the geography, statistics, description, and the history of the United States of Mexico) (Mexico City: Secretaría de Fomento, 1884–85); 1888 data were taken from Secretaría de Fomento, *Boletin Semestral de la República Mexicana* (Mexico City: Secretaría de Fomento, 1890); 1891 data were taken from A. Garcia Cubas, *Mexico: Its Trade, Industries and Resources* (Mexico City: Secretaría de Fomento, 1893); 1893 data were taken from Dirección General de Estadística, *Anuario Estadístico de la República Mexicana 1893–94* (Mexico City: Dirección General de Estadística 1894); 1895 data were taken from Secretaría de Hacienda, *Memoria de la Secretaría de Hacienda* (Mexico City, 1896); 1896 data were taken from Secretaría de Hacienda, *Estadística de la República Mexicana* (Mexico City: Secretaría de Hacienda, 1896); 1898–1913 excise tax data were taken from the Ministry of Finance's periodical reports in the financial weekly *Semana Mercantil* (Mexico City); 1912 data were taken from "Extracto de las Manifestaciones presentadas por los fabricantes de hilados y tejidos de algodón para el semestre de enero a junio de 1912," located at the Archivo General de la Nación (AGN), box 5, file 4 (Mexico City, n.d.); 1913 data were also located in the same archive within "Extracto de las Manifestaciones presentadas por los fabricantes de hilados y tejidos de algodón para el semestre de enero a junio de 1913," AGN, box 31, file 2 (Mexico City, n.d.); 1914 data were taken from the July 4, 1914, issue of Mexico City's *El Economista Mexicano;* 1915–32 data were taken from periodical reports of excise tax data found in Secretaría de Hacienda y Crédito Público, *Boletín de la Secretaría de Hacienda y Crédito Público* (Mexico City: SHCP, 1917–32); 1924–33 statewide data were obtained from typewritten reports of the Secretaría de Hacienda y Crédito Público—Departamento de Estadística, "Estadísticas del Ramo de Hilados y Tejidos de Algodón y de Lana," located at the Library of the Banco de México; finally, national data for 1898–1924 were taken from Dirección General de Estadística, *Anuario Estadístico 1923–1924*, vol. 2 (Mexico City: Dirección General de Estadística, 1926).

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We estimate probit and logit regressions to predict the probability of survival from 1910 to 1920 as a function of several firm characteristics. We test for the effects of size (measured by market share), location (by geographic region), age of firm, total factor productivity, and the capital-labor ratio (see Table 2).[44]

Our probit regression results, reported in panel 1 of Table 2, indicate that size was the primary factor in determining firm survival during the revolution. All of the other variables are either not statistically significant or have extremely small magnitudes. Our samples are unbalanced (four to five survivors for every firm that exited the market), so we used an alternative logit model to cross-check our probit results. The logit regressions show similar qualitative results: size remains the major determinant of survival during the revolutionary years. Surprisingly, the technical efficiency of firms had no impact on surviving the revolution.

Figure 1 graphs the marginal and absolute effects of size on the probability of survival. A striking feature of this graph is that it indicates that once a firm reached a market share of just over 1.5 percent, the probability of survival approached 100 percent.[45] The graph also indicates that the marginal impact of size on survival was most important at the smallest firm sizes.[46]

There are several hypotheses about why larger firms had a greater probability of surviving the revolution than their smaller competitors. One possible explanation is that very small firms were more likely to go out of business because they were technically inefficient (operating at a size below the minimum efficiency scale), and hence the revolution merely hastened their demise. There are two problems with this inter-

[44] We interpret these regressions as follows. First, to assess the importance of individual explanatory variables in these regressions, we look at their relative magnitudes and statistical significance. Second, the estimate of the intercept provides a benchmark with which to compare the coefficient estimates of the other explanatory variables because it allows us to calculate the probability of the survival of firms that do not have the characteristics of the regressors. Third, as estimated, the model is a probability function for which absolute probabilities can be calculated only if the explanatory variables X are evaluated at particular values of interest.

[45] The average firm size corresponded to a 0.7 percent market share. The largest firms in the industry had market shares of 5 to 12 percent.

[46] We calculated these marginal effects in two steps. First, we used specification 1 in Table 2 to calculate a probability equation as a function of size: $\text{Prob}(\text{Survival} = 1 \mid \text{Size}) = \Phi(-0.451 + 213.923 \times \text{Size} + 0.445 + 0.578 - 0.543)$, where Φ is a normal cumulative distribution function. These are graphed in Figure 1 as "absolute probability." Second, we measured changes in probability associated with size increments of 0.01 percent of market share. These changes correspond to the marginal effects of size on the probability of survival. The probability equation corrsponds to joint stock firms in the Central region. Varying location and firm type produced almost identical results to those shown here. To cross-check our results, we ran separate regressions with an intercept term and size as the only explanatory variables (given that estimates of the other variables in specification were neither robust nor statistically significant). We obtained similar results: marginal size effects were more important for the smallest firms and were exhausted at a size equivalent to 1.5 percent of market share.

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TABLE 2
PROBIT AND LOGIT SURVIVAL REGRESSIONS[a]
(1900–1920)

	1900–1910						*1910–1920*					
	Probit			*Logit*			*Probit*			*Logit*		
	Spec 1	*Spec 2*	*Spec 3*	*Spec 4*	*Spec 5*	*Spec 6*	*Spec 1*	*Spec 2*	*Spec 3*	*Spec 4*	*Spec 5*	*Spec 6*
Intercept	1.023	3.499	1.651	1.717	7.371	3.139	−0.451	−0.640	−0.349	−0.875	−1.163	−0.905
	(3.349)	(2.799)	(1.569)	(3.023)	(2.630)	(1.437)	(−1.108)	(−0.767)	(−0.550)	(−1.260)	(−0.824)	(−0.770)
Size: measured as share of industry output	31.113	31.548	12.185	59.675	67.914	28.135	213.923	168.614	156.368	393.578	312.066	297.495
	(0.719)	(1.155)	(0.371)	(0.692)	(1.192)	(0.377)	(2.890)	(2.117)	(2.046)	(2.800)	(2.135)	(2.086)
Region: dummy for firms in states of DF, MX, Puebla, Veracruz, and Tlaxcala	0.082	−0.046	−0.196	0.132	−0.110	−0.353	0.445	0.704	0.869	0.743	1.253	1.592
	(0.250)	(−0.083)	(−0.335)	(0.204)	(−0.093)	(−0.293)	(1.247)	(1.632)	(1.860)	(1.165)	(1.590)	(1.840)
Joint stock: dummy for public, limited-liability firms	0.402	−0.653	−0.383	0.820	−1.252	−0.828	0.578	0.749	0.808	1.082	1.547	1.755
	(1.039)	(−1.138)	(−0.757)	(1.001)	(−1.061)	(−0.768)	(1.292)	(1.257)	(1.363)	(1.264)	(1.287)	(1.412)
Vintage: dummy for age of firm							−0.543	−0.931	−1.213	−0.939	−1.641	−2.103
							(−1.101)	(−1.595)	(−1.553)	(−1.104)	(−1.625)	(−1.592)
TFP: production proxied by real value of output[b]		−0.013			−0.029			0.004			0.006	
		(−1.881)			(−1.976)			(0.958)			(0.899)	
TFP: production proxied by meters of output[b]			0.000			0.000			0.000			0.001
			(0.088)			(−0.009)			(0.496)			(0.682)
Capital–labor ratio[b]		−0.018	0.002		−0.051	0.000		−0.004	−0.006		−0.007	−0.012
		(−0.627)	(0.053)		(−0.873)	(−0.002)		(−0.272)	(−0.730)		(−0.307)	(−0.787)
N	125	76	72	125	76	72	108	90	87	108	90	87
Adjusted R2	0.02	0.14	0.01	0.02	0.18	0.01	0.29	0.30	0.29	0.30	0.31	0.31

SOURCE: See fn. 43.

[a] T statistics are in parentheses. Dependent variable is survival (1 if firm survives entire period; 0 if firm disappears from the industry).

[b] For 1900–1910 observations, TFP and K/L data were taken from the 1896 census. For 1910–1920 observations, TFP and K/L data were taken from the 1912 census. In both cases we assumed that the input mix and productivity of firms remained constant in the short trun.

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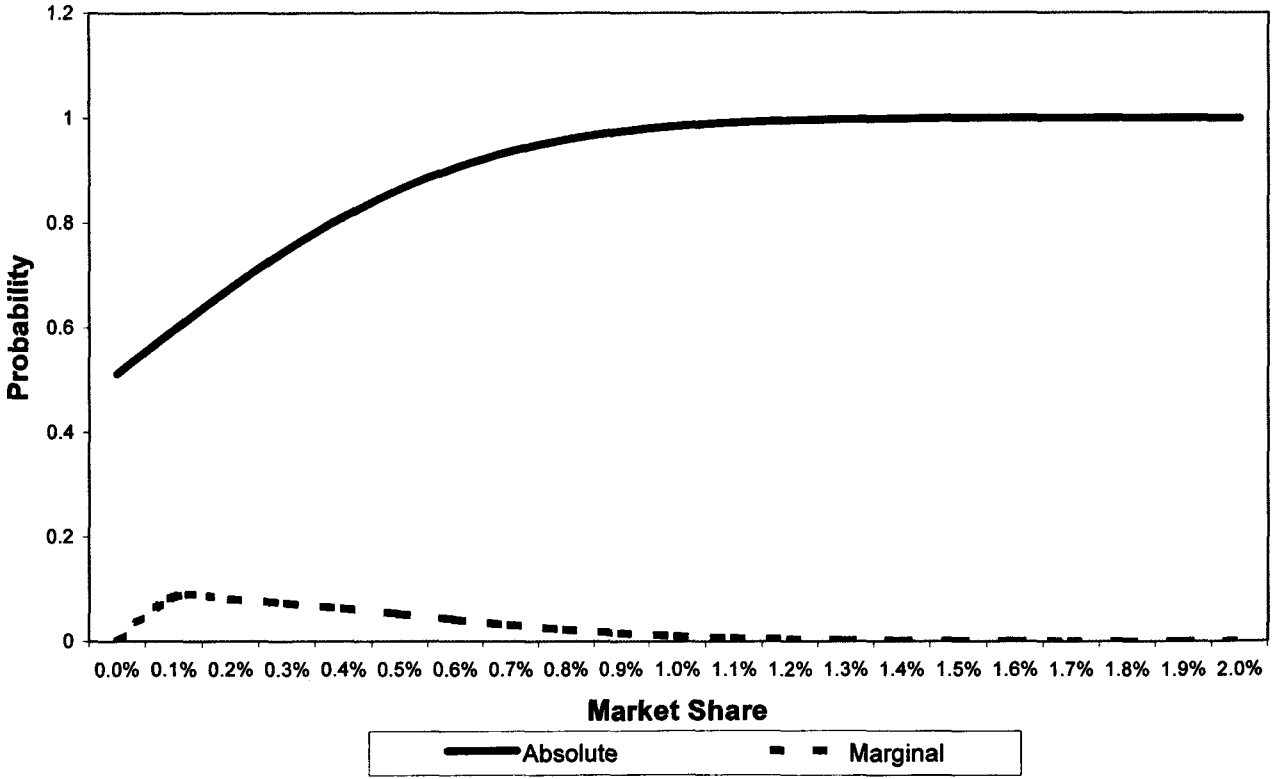

FIGURE 1
SIZE AND PROBABILITY OF SURVIVAL

pretation. First, one would always expect firm survival to be correlated with firm size. We therefore estimated similar regressions for the period 1900–1910. The coefficient on firm size has the right sign and magnitude, but it is not statistically significant (see Table 2). Second, one would expect survivorship to be correlated with technical efficiency. As specifications 2, 3, 5, 6 8, 9, 11, and 12 make clear, however, differences in total factor productivity are extremely poor predictors of firm survival.

A more likely explanation for the correlation of firm size with firm survival during the revolution is that larger firms had the financial resources to weather the severe economic crisis of 1914–17. It is likely that owners of smaller firms had less liquid wealth to buttress their enterprises during hard times (their more modest wealth explains, in fact, the small size of their firms), and thus they were less likely to be able to purchase stocks of raw materials to get them through prolonged periods when inputs were unavailable, less likely to be able to go for long periods when they could not earn revenues from production, and less likely to be able to pay ransoms or forced loans to passing armies. This interpretation is buttressed by documentary evidence from company histories and the correspondence of factory owners with Mexico's Department of Labor, both of which indicate that revolutionary armies rarely destroyed the mills they occupied.[47]

More serious than the threat of occupation by revolutionary armies was the fact that it was difficult to obtain raw materials or move product to market because of the collapse of the national railroad system and the disappearance of a national currency.[48] The implication is that once normalcy returned to the transportation and monetary systems, production regained its prerevolutionary levels. The available evidence supports this view. Data we have retrieved on the steel, cement, beer, and cotton textile industries all display the same basic pattern: there were dramatic declines in production during the violent phase of the revolution, followed by a quick recovery once the fighting stopped (see Tables 3, 4, 5, and 6). In fact, by the early 1920s production in most industries had regained its prerevolutionary levels.

In summary, we find no quantitative evidence to support the view of the traditional historiography that the Mexican Revolution wrought

[47] Haber (fn. 29, 1989), 132–34.

[48] Mexico's factory owners regularly communicated these problems to the government. See Archivo General de la Nación, Ramo del Departamento de Trabajo, Mexico City: box 45, file 3, pp. 1–5; box 52, file 12, pp. 1–3; box 90, file 17, p. 1; box 91, file 21, pp. 1–2; box 96, file 5, pp. 49–53; box 96, file 9, p. 45; box 107, file 22, p. 2; box 107, file 22, p. 2; box 110, file 28, p. 1; box 173, file 23, p. 1.

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TABLE 3
CAPACITY, OUTPUT, AND VALUE OF PHYSICAL PLANT IN FUNDIDORA MONTERREY
(MEXICO'S STEEL MONOPOLIST)

Year	*Capacity*[a]	*Output*[b]	*Capacity Utilization (%)*	*Value of Physical Plant*[c]
1903	110	22	20	8,388
1904	110	36	33	9,236
1905	110	4	4	9,833
1906	110	25	23	10,032
1907	110	16	15	9,526
1908	110	17	15	9,082
1909	110	59	54	9,317
1910	110	45	41	9,365
1911	110	71	65	9,087
1912	110	33	30	9,337
1913	110	12	11	9,226
1914	110	0	0	8,989
1915	110	0	0	8,509
1916	110	0	0	8,161
1917	110	12	11	7,819
1918	110	21	19	7,830
1919	110	21	19	7,374
1920	110	15	14	9,133
1921	110	42	38	10,421
1922	110	24	22	10,217
1923	110	44	40	10,238
1924	110	19	17	10,340
1925	110	49	45	9,872
1926	110	62	56	9,700
1927	110	41	37	9,436
1928	110	51	46	9,173
1929	110	60	55	8,679
1930	110	58	53	8,649
1931	110	53	48	8,124
1932	110	20	18	7,625
1933	110	54	49	7,528
1934	110	66	60	6,530
1935	110	64	58	6,882
1936	110	88	80	7,450
1937	110	59	54	8,868

SOURCE: Calculated from Fundidora Monterrey, *Informe Annual* (1900–38).

[a]Capacity of the blast furnace, in thousands of metric tons.

[b]Output of the blast furnace, in thousands of metric tons.

[c]Book value of the physical plant (land, equipment, buildings), net of depreciation in thousands of pesos. Physical plant depreciated at a flat rate of 5 percent per annum.

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TABLE 4
CAPACITY AND OUTPUT IN MEXICO'S CEMENT INDUSTRY, 1906–40
(IN THOUSANDS OF METRIC TONS)

Year	*Capacity*	*Output*	*Capacity Utilization (%)*
1906	66	20	30
1907	66	30	45
1908	66	40	61
1909	86	50	58
1910	151	60	40
1911	152	50	33
1912	177	40	23
1913	177	30	17
1914	177	25	14
1915	177	10	6
1916	177	20	11
1917	177	30	17
1918	177	40	23
1919	177	40	23
1920	222	45	20
1921	222	50	23
1922	222	70	32
1923	222	90	41
1924	222	107	48
1925	222	110	50
1926	222	151	68
1927	222	158	71
1928	246	204	83
1929	291	158	54
1930	291	227	78
1931	375	157	42
1932	405	138	34
1933	405	173	43
1934	405	241	60
1935	405	252	62
1936	405	286	71
1937	405	345	85
1938	513	374	73

SOURCE: Haber (fn. 29, 1989), 41, 127, 165, 177.

great destruction. Our analysis indicates that it was not superior performance that determined survival but rather small size, thus avoiding a sample selection bias in our results. The evidence also suggests that instability increases transaction costs and that its impact on particular agents will depend on the ability of the latter to incur those costs.

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TABLE 5
MEXICAN BEER PRODUCTION
NATIONAL AND CERVECERÍA CUAUHTEMOC
(IN THOUSANDS OF LITERS)

Year	*Cervecería Cuauhtemoc*	*National Output*	*Cuauhtemoc Market Share (%)*
1900	4,866	——	——
1901	4,685	——	——
1902	5,581	——	——
1903	5,925	——	——
1904	6,865	——	——
1905	8,884	——	——
1906	13,344	——	——
1907	14,005	——	——
1908	11,183	——	——
1909	11,582	——	——
1910	13,275	——	——
1911	14,172	——	——
1912	16,519	——	——
1913	11,732	——	——
1914–15[a]	3,359	——	——
1916	2,758	——	——
1917	4,640	——	——
1918	4,977	——	——
1919	7,735	——	——
1920	14,929	——	——
1921	16,689	——	——
1922	13,156	——	——
1923	12,335	——	——
1924	11,564	52,003	22
1925	15,736	53,673	29
1926	21,521	67,925	32
1927	23,201	71,613	32
1928	22,229	67,911	33
1929	23,174	71,973	32
1930	21,760	72,065	30
1931	18,894	54,711	35
1932	14,367	42,470	34
1933	19,082	52,991	36
1934	24,305	67,368	36
1935	29,291	82,513	35
1936	36,355	98,893	37
1937	44,225	120,805	37
1938	43,483	129,802	33
1939	49,052	160,452	31
1940	54,709	179,198	31

SOURCE: Unpublished data from Cerveceria Cuauhtemoc Sales Department; Dirección General de Estadística, *Anuario Estadístico de la República Mexicana* (Mexico City: Dirección General de Estadística, 1942), 958.

[a]Combined year.

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TABLE 6
MEXICAN COTTON TEXTILE INDUSTRY
(1850–1933)

Year	*Estimated Nominal Value Output*[a]	*Estimated Real Value Output*[a]	*Estimated Meters of Output*[a]	*Estimated Spindles*	*Estimated Worker Equivalents*[b]
1850 [c]	1,967	1,659	21,389	135,538	11,243
1854 [c]	5,987	5,188	19,994	122,714	10,541
1857 [c]	2,601	2,006	17,636	119,225	9,652
1862				133,122	
1865				154,822	
1883	11,484	8,538	76,331		
1888[d]	264	216	60,842	249,561	15,083
1889	10,909	8,942	83,827		
1891	12,066	9,891	93,527	277,784	14,051
1893	19,064	15,628	122,550	370,570	21,963
1895	23,554	21,222	170,929	411,090	18,208
1896	23,658	23,658	206,412	430,868	19,771
1899	29,753	29,753	231,686	491,443	23,731
1900	35,459	35,459	261,397	588,474	27,767
1901	33,877	33,877	262,044	591,506	26,709
1902	28,780	28,780	235,956	595,728	24,964
1903	36,907	36,907	262,170	632,601	26,149
1904	42,511	42,511	280,710	635,940	27,456
1905	51,214	51,214	310,692	678,058	30,162
1906	51,171	51,171	349,712	688,217	31,673
1907	51,686	51,686	428,284	613,548	33,132
1908	54,934	54,934	368,370	732,876	35,816
1909	43,370	43,370	314,228	726,278	32,229
1910	50,651	50,651	315,322	702,874	31,963
1911	51,348	51,348	341,441	725,297	32,147
1912	63,802	72,834	319,668	762,149	32,209
1913	54,002	33,978	298,897	752,804	32,641
1917[e]	25,125	12,266		573,092	22,187
1918	48,567	15,111	180,453	689,173	23,067
1919	80,781	23,333	305,509	735,308	21,877
1920	120,492	27,840	298,829	753,837	24,691
1921	93,342	66,826	338,346	770,945	25,485
1922	85,023	53,040	330,601	803,230	26,451
1923	97,563	44,214	303,090	802,363	26,419
1924	96,435	44,155	285,594	812,165	25,155
1925	102,527	56,839	380,041	840,890	33,262
1926	88,766	60,562	327,487	832,193	27,476
1927	73,179	51,156	308,940	821,211	27,492

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TABLE 6 (*cont.*)

Year	*Estimated Nominal Value Output*[a]	*Estimated Real Value Output*[a]	*Estimated Meters of Output*[a]	*Estimated Spindles*	*Estimated Worker Equivalents*[b]
1928	89,630	52,529	300,425	823,862	25,348
1929	105,055	67,861	389,147	839,100	27,598
1930	84,876	58,426	305,512	803,873	27,729
1931	78,580	70,154	269,085	838,223	25,788
1932	88,694	52,333	301,537	851,163	25,223
1933	110,612	47,569	381,783	862,303	27,308

SOURCE: See fn. 43.

[a]Output reported in thousands.

[b]Number of workers adjusted for changes in the length of the workday: twelve hours from 1850 to 1913, ten hours from 1914 to 1917, eight from 1918 to 1933.

[c]Value of output calculated from prices and quantities. This is a lower-bounded estimate, since not all quantities were matched with a respective price.

[d]For these years the majority of firms reported output in meters.

[e]Spindles and workers data for 1917 were taken from *Estadisticas Históricas* (fn. 27), 616.

INVESTOR CONFIDENCE AND EXPECTATIONS

Our theory predicts that agents will take account of the political environment in which they operate. It is one thing to determine, ex post, what effects the revolution had on firm survival. It is quite another to determine how factory owners at the time viewed the situation. In this section we assess how expectations were affected by instability as it was evolving.

Financial theory states that the price of assets is a reflection of the expectations of investors about the future ability of those assets to produce profits.[49] Reduced expectations about the ability of assets to earn positive returns will therefore result in a decline in the market value of those assets. Thus, one way to get at the question of investor confidence is to study the price of common stock in Mexico's publicly traded manufacturing companies. We therefore retrieved year-end stock prices from the Mexico City financial press for all of the publicly traded manufacturing firms and produced a real (inflation adjusted) stock price

[49] See Winston T. H. Koh et al., "Asset Pricing and Investors' Expectations: Theory and Evidence," in Theodore Bos et al., *Studies in the Financial Markets of the Pacific Basin* (Greenwich, Conn., and London: JAI Press, 1994). For a discussion of the value of the firm (indirectly maximized for consumers by firms) and investment costs, see Fumio Hayashi, "Tobin's Marginal q and Average q: A Neoclassical Interpretation," *Econometrica* 50 (January 1982).

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index.[50] We estimate the index using both real (inflation adjusted) pesos and real dollars in order to make certain that our results are not driven by the price index.

Regardless of the price index employed, the data indicate that the revolution made investors extremely uncertain about the future. All twelve firms in our index saw dramatic declines in their share prices from 1910 to 1918. In Table 7 we estimate an index (1910 = 100) of the average stock prices. Calculated in real pesos, the value of share prices fell by 79 percent from 1910 to 1918; calculated in real dollars, the index fell by 67 percent.

Equally striking, however, are two other features of the stock price data. The first is that investors were already becoming uncertain well before Díaz was overthrown. The pattern for all the companies in the sample was a gradual rise in stock prices until 1906–7 and then a sharp decline. On average, firms lost 23 percent (measured in real dollars) or 32 percent (measured in real pesos) of their value from 1906 to 1910. The second striking feature is that stock prices recovered rapidly after the fighting stopped. From 1918 to 1919 the stock index jumped from 21 to 36 (in real pesos) and from 33 to 39 (in real dollars). It then continued rising through 1925, when it reached 44 and 50, respectively. This indicates that if investors were uncertain about the future, their uncertainty was largely confined to the period until 1918—the years when revolutionary violence threatened the physical safety of firms' assets. We would also suggest that the lack of a market response to the failed military rebellion of 1923 (in which two-thirds of the army sided with the generals against the government) is equally striking. Investors seemed not to have been concerned at all about the government toppling, even though there was the very real threat of another round of civil war.[51]

These stock indices are downward biased over time. First, the firms in the index were noted for the fact that their board members and

[50] Data were gathered from *El Economista Mexicano* and *La Semana Mercantil* from 1896 to 1914. Data from 1914 to 1935 were gathered from the *Boletín Financiero y Minero*. In cases where no shares were traded, the average of the bid and ask prices was taken. Our data set includes the four largest cotton textile producers (CIDOSA, CIVSA, CIASA, and CISAASA, which jointly accounted for roughly one-third of national output), the country's steel monopoly (Fundidora Monterrey), the largest wool textile manufacturer (the Compañía Industrial de San Ildefonso), two of the country's three most important beer brewers (the Cervecería Moctezuma and the Compañía Cervecera de Toluca y México) , the country's only large-scale producer of soap and glycerin products (the Compañía Industrial Jabonera de la Laguna, which controlled 90 percent of the soap market), one of the two important producers of paper products (the Compañía Industrial de San Rafael y Anexas, which monopolized the lucrative newsprint market), and two of the three firms that dominated the production of tobacco products (El Buen Tono and La Cigarrera Mexicana).

[51] Jean Meyer, "Mexico: Revolution and Reconstruction in the 1920's," in Bethell (fn. 26), 160–61.

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TABLE 7
INDEX OF REAL SHARE VALUES, MEXICAN INDUSTRIAL COMPANIES
(12 PUBLICLY TRADED MANUFACTURERS, 1910 = 100)

Year	*Real Pesos*	*Real Dollars*
1901	119	99
1902	103	74
1903	108	76
1904	108	90
1905	135	121
1906	147	130
1907	145	120
1908	129	104
1909	105	92
1910	100	100
1911	97	99
1912	89	85
1913	82	74
1914		46
1915		
1916		34
1917		
1918	21	33
1919	36	39
1920	33	37
1921	34	43
1922	45	47
1923	44	48
1924	44	47
1925	44	50
1926	40	44
1927	35	38
1928	33	33
1929	31	30
1930	29	30
1931	25	24
1932	21	16
1933	30	21
1934	38	24
1935	40	24
1936	42	26
1937	35	25
1938	26	17

SOURCE: Share Prices from *El Economista Mexicano, La Semana Mercantil,* and *Boletin Financiero y Minero.* Deflated to real pesos with Mexico City wholesale price index from *Estadísticas Históricas* (fn. 27), 930. Converted to dollars with exchange rate in *Estadísticas Históricas* (fn. 27), 1006, and deflated to real dollars with wholesale price index in U.S. Department of Commerce, *Historical Statistics of the United States: Colonial Times to 1970* (Washington, D.C.: USDC, 1975) , 200.

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founding stockholders tended to be politically well connected. They were therefore able to get the Porfirian government to transfer to their firms valuable rights in the public domain (particularly water rights necessary to generate hydroelectric power) and were able to exert influence on tariff policies.[52] Part of their market value prior to 1910 may therefore have been capitalized rents from the political influence of their board members, and the drop in stock prices from 1910 to 1918 may have expressed this decline in political influence. Second, the stock indices do not capture new, more efficient privately owned firms that entered some product markets in the 1920s (most notably in beer brewing and tobacco products) and that outcompeted their Porfirian competitors. The result was a dramatic fall, independent of the effects of political instability, in the share prices of three of the twelve firms in our sample.

Another way to get at the question of the impact of the revolution on investor confidence is to look at the rate at which all firms, including small, privately owned ones, changed ownership. In an environment characterized by uncertainty one would expect a higher rate of turnover of assets, as entrepreneurs who were uncertain about the future sold their assets to those entrepreneurs who either had better information about political and market developments or were willing to bear greater risk. Presumably the sale price in these cases would reflect a discount for increased risk.

Our data set on the cotton textile industry permits us to undertake a partial analysis of this issue. Unfortunately, we do not have data on the prices at which mills owned by sole proprietors or partnerships changed hands. We do know, however, the size of those mills and when they were sold. In Table 8 we present estimates of the rate at which firms changed hands before, during, and after the revolution. Surprisingly, the revolution had little impact on the rate at which firms were sold.

What does appear to have been different, however, was the *size* of firms that changed hands during the revolution. As Table 8 demonstrates, there was little difference in the size of firms that were sold before and after the revolution. There was, however, a sizable decline (on the order of 50 percent) in the average size of firms that were sold during the ten years 1910–20. This result is consistent with the finding that small firms had a lower probability of surviving the revolution intact. One implication of this finding would be that the relative price of

[52] Haber (fn. 29 1989), chap. 5; Humberto Morales Moreno, "Economic Elites and Political Power in Mexico, 1898–1910," *Bulletin of Latin American Research* 15, no. 1 (1996).

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TABLE 8
RATES OF OWNERSHIP CHANGE, MEXICAN COTTON TEXTILE INDUSTRY (1895–1929)

Period	*Firms Appearing in Both Years*	*Firms That Change Ownership*	*Industry That Changes Ownership (%)*	*Output Affected by Ownership Turnover (%)*
1895–1900	94	27	29.0	22.6
1900–1905	112	30	27.0	15.2
1905–1910	102	18	18.0	12.5
1910–1915	66	7	27.0	4.2
1915–1920	77	12	16.0	7.0
1920–1925	103	22	21.0	18.9
1925–1929	100	20	20.0	12.4

SOURCE: See fn. 43.

small firms would fall. We would therefore expect to see a greater rate of ownership change among small firms—precisely the result we obtain.

NEW INVESTMENT

One implication of our analysis of investor confidence and firm survival is that industry should have continued to grow after the revolution. If investor confidence had recovered after 1918, we would expect to see new investment in plant and equipment. We have been able to retrieve data on new capacity or investment in the cement, steel, and cotton textile industries. We have also retrieved detailed data on U.S. industrial machinery exports to Mexico, which is an excellent measure of aggregate new investment because virtually all of Mexico's capital goods had to be imported.

Productive capacity in the cement industry continued to expand both during and after the revolution, growing from 66,000 metric tons per year in 1906 to 151,000 in 1910, 177,000 in 1912, 222,000 in 1920, and 246,000 in 1928. This rate of growth in capacity is especially impressive in light of the fact that capacity utilization was almost always less than 60 percent, implying that firms were confident enough about the future to invest well ahead of demand (see Table 4).[53] Data on the

[53] The fact that firms invested ahead of demand is explained by the fact that cement production tends, almost everywhere in the world, to be characterized by local monopolies. The high bulk-to-price ratio of cement means that it is economical to ship it only over short distances. In order to expand, therefore, firms must erect new production facilities in new areas of the country. And to keep out potential rivals, firms also tend to erect more productive capacity than they need in these new markets. See Ronald N. Johnson and Allen Parkman, "Spatial Monopoly, Non-Zero Profits, and Entry Deterrence: The Case of Cement," *Review of Economics and Statistics* 65, no. 3 (1983), 431–39.

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nation's integrated steel-producing monopolist, Fundidora Monterrey, tell a similar story. During the years of military conflict Fundidora Monterrey closed its doors and spent no funds on plant and equipment. As soon as the market returned to normalcy, however, the firm invested in a dramatic fashion: the value of its physical plant grew 41 percent from 1919 to 1921, even in the face of a rate of capacity utilization of less than 40 percent (See Table 3).

One might argue that the recovery of these construction-goods industries should not be surprising. The physical destruction caused by the revolution might have stimulated demand for exactly these kinds of goods in the postrevolutionary period. It might therefore be the case that these two industries are unrepresentative of the manufacturing sector as a whole. This interpretation is not sustained, however, by the analysis of data on the country's most important consumer goods industry: cotton textiles. As Table 6 indicates, by 1921 the industry, measured in spindlage,[54] was 10 percent larger than it had been in 1910 (and roughly equal to its 1913 level), and in the four years from 1921 to 1925 the industry grew an additional 9 percent, making it 20 percent larger than it had been in 1910. This increase in industry capacity cannot be explained as the result of population growth. The Mexican population was 5 percent smaller in 1921 than it had been in 1910.[55]

The patterns displayed by the cotton textile, steel, and cement industries are corroborated by data on U.S. exports of industrial machinery to Mexico. In Table 9 we present estimates of the real (inflation-adjusted) value of exports of brewing, metalworking, shoe manufacturing, paper and pulp milling, textile spinning and weaving, and electrical machinery from the United States to Mexico. All of the series indicate the same pattern: the export of industrial machines grew during the early years of the revolution (1910–13) and then collapsed dramatically during the years of intense military conflict. By 1918, however, exports of industrial machines to Mexico increased rapidly. In fact, 1920 and 1921 set records for machinery exports to Mexico, indicating that Mexican firms were rapidly investing in new plant and equipment. Throughout the rest of the 1920s machinery exports to Mexico were at higher levels than those prevailing during the last years of the Porfiriato.

One might argue that it should not come as a surprise that industrialists reopened their mills after the fighting ended since the capacity

[54] Spindles constitute the most important capital input for the production of cotton textile goods, and thus the literature tends to use spindlage as the measure of capital or capacity. See, for example, Nancy F. Kane, *Textiles in Transition: Technology, Wages, and Industry Relocation in the U.S. Textile Industry* (Westport, Conn.: Greenwood, 1988).

[55] Mexican population data are from *Estadísticas Históricas* (fn. 27), 44.

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TABLE 9
EXPORTS OF U.S. INDUSTRIAL MACHINERY TO MEXICO, 1908–1930
(IN 1926 U.S. DOLLARS)

Year	*Brewing Equipment*	*Metal Working*	*Shoe Making*	*Paper and Pulp Milling*	*Textile Spinning & Weaving*	*Electrical Machinery*
1908	n.a.	92,975	21,556	n.a.	n.a.	1,123,267
1909	n.a.	148,216	15,258	n.a.	n.a.	1,140,512
1910	n.a.	72,251	12,588	n.a.	n.a.	809,666
1911	10,439	129,302	17,092	n.a.	n.a.	n.a.
1912	13,330	42,044	14,730	n.a.	n.a.	1,609,180
1913	54,947	75,599	43,843	3,431	33,737	528,444
1914	13,339	59,914	17,061	1,971	7,376	904,497
1915	2,124	32,365	4,655	78	4,236	991,427
1916	4,294	120,092	4,631	5	11,615	1,313,889
1917	5,297	147,032	56,645	4,622	45,590	1,730,115
1918	46,544	n.a.	51,022	1,082	89,397	2,727,125
1919	33,345	n.a.	55,401	21,420	155,488	3,998,430
1920	67,459	n.a.	198,795	79,281	327,824	6,083,900
1921	126,117	n.a.	198,220	109,897	202,163	7,135,269
1922	81,854	462,504	61,030	26,194	117,602	2,775,718
1923	87,197	640,201	74,789	45,246	84,318	3,138,433
1924	41,815	374,473	83,205	43,293	152,995	5,811,577
1925	64,211	n.a.	69,922	17,090	248,351	4,782,694
1926	114,646	n.a.	69,930	26,093	239,883	4,412,631
1927	152,244	n.a.	53,591	53,591	217,684	4,160,488
1928	55,661	n.a.	50,912	31,304	247,510	3,895,555
1929	30,772	n.a.	56,744	86,372	139,663	5,672,511
1930	45,013	n.a.	74,004	52,466	148,427	6,437,811

SOURCE: U.S. Department of Commerce, *The Foreign Commerce and Navigation of the United States, 1912–1920* (Washington, D.C.: USDC, various years). Price deflator is the wholesale price index, metal goods, published in *Historical Statistics of the United States: Colonial Times to 1970* (Washington, D.C.: USDC, 1975) 200.

that existed prior to the revolution represented sunk costs. As long as industrialists could cover their variable costs, therefore, it paid to put capacity back into production. One might also argue that incremental investments by industrialists should not come as a surprise either: if investments in small increases in productive capacity could, at the margin, allow for the efficient use of already existing capacity, then it would be in the interest of industrialists to undertake these investments, even if the general business environment was uncertain.

There are two problems with this argument. First, the data on U.S. exports of industrial machinery to Mexico indicate that firms were doing much more than undertaking incremental increases in produc-

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tive capacity: the flow of new machinery to Mexico after the revolution exceeded prerevolutionary levels. Second, this argument cannot account for the fact that new firms entered the market both during the revolution and afterward. As Table 1 indicates for the cotton textile industry, for example, rates of entry during and after the revolution are indistinguishable from the rates of entry that prevailed during the five years before the revolution. New firms continued to open during even the worst years of violent conflict.

We do not have the kinds of systematic data on entry and exit for other industries that we have for cotton textiles. The partial data we have, however, indicates new entry in a number of industries by large, new capital-intensive firms in the early 1920s. In the tobacco industry, for example, a huge, new capital-intensive firm (El Aguila, S.A.) entered the market in 1924 and in short order drove its Porfirian competitors into bankruptcy. In the dynamite industry the Dupont de Nemours company acquired the works of the Compañía Industrial Nacional Mexicana de Dinamita y Explosivos. The cement industry saw the founding of Cementos Monterrey, which soon merged with Cementos Hidalgo to form the mammoth Cementos Mexicanos. And in the beer industry the huge Cervecería Modelo was opened in Mexico City, quickly establishing itself as one of the largest brewers in the country. Ford Motor entered the market as well, in 1925, with a new assembly plant in Mexico City.[56]

Industry Concentration

A study of industry concentration is relevant for two reasons. First, it allows us to assess how revolutionary (in the ex post sense) the Mexican Revolution really was in terms of expanding opportunities to groups beyond the privileged elites of the Porfiriato. Second, and most importantly, as we look at aggregate impacts of instability on particular industries, it is important to know whether industry structure changed during the period of analysis in order to validate comparisons among different periods.

Our analysis of firm turnover and new investment, for example, might not capture the fact that purchases of new capacity or purchases of competitor's capacity might have taken place among a few large firms. In this case instability might have had a significant negative impact on most of the industry except for those large firms. Or it might have been the case, for example, that the contraction of the banking

[56] Haber (fn. 29, 1989), 143–44.

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sector gave rise to privileged access to capital for a small group of entrepreneurs tied to the financial institutions that survived the revolution, thereby allowing them to purchase their competitor's capacity at bargain prices. Or perhaps some entrepreneurs had political ties to the postrevolutionary governments that allowed them to obtain valuable rights in the public domain (such as the rights to use particular rivers to generate hydraulic or hydroelectric power, or that afforded them discounted freight rates on the government-run railroads); this yielded cost advantages that translated over time into faster rates of growth of new investment and increased market shares. Or perhaps it was simply the case that large firms could afford to be less risk averse than smaller firms, which allowed them to add new capacity at a more rapid rate than their competitors. Any or all of these factors might have produced substantial changes in the competitive structure of industry.

Testing these specific mechanisms is difficult in most industries because, for technological reasons, they were already highly concentrated prior to the revolution. The paper, glass, steel, dynamite, and soap industries were monopolies or near monopolies, while the beer, cement, and cigarette industries were each dominated by two or three producers.[57] The cotton textile industry, however, provides an opportunity to assess the independent impact of the revolution on industry structure because there were more than one hundred producers in the industry before the revolution broke out. In addition, it would not be possible to explain changes in concentration in this industry as a function of production technology. Textile manufacturing is perhaps the archetypal case of an industry characterized by constant returns to scale technologies, capital divisibilities, and the absence of barriers to entry.

We have been able to measure changes in the structure of Mexico's cotton textile industry from 1840 to 1932 by estimating the two standard measures of industry concentration: the four-firm ratio and the Herfindahl Index.[58] Our analysis, presented in Table 10 and Figure 2, indicates that the Mexican cotton textile industry was characterized by very high levels of concentration. At the close of the revolution in 1919 Mexico's four largest firms controlled 37.5 percent of the market, which was more than twice the level controlled by Brazil's four largest textile manufacturers and more than five times the level controlled by the four

[57] Ibid., chap. 4; Costa and Calva (fn. 41), 198–203.

[58] The four-firm ratio is calculated as the percentage of the market controlled by the four largest producers. The Herfindahl Index is calculated as the sum of the squares of the market shares of all firms in the industry. Because it uses data from all firms and because it weights firms by size, the Herfindahl Index is generally regarded as a superior index of concentration.

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TABLE 10
MEXICAN COTTON TEXTILE INDUSTRY CONCENTRATION RATIOS
(MEASURED BY VALUE OF OUTPUT)

Year	*Observations*	*Four-Firm Ratio*	*Herfindahl Index*
1840[a]	14	0.579	0.114
1843[a]	45	0.346	0.043
1844[a]	48	0.344	0.054
1845[a]	49	0.292	0.038
1850[a]	43	0.270	0.040
1854[a]	41	0.318	0.040
1857[a]	41	0.321	0.040
1862[a]	40	0.273	0.041
1865[a]	62	0.278	0.029
1878[a]	87	0.168	0.021
1883	87	0.158	0.019
1888[a]	85	0.174	0.021
1889	76	0.180	0.022
1891	85	0.188	0.023
1893[a]	114	0.200	0.022
1895	93	0.371	0.040
1896	94	0.297	0.039
1898	106	0.394	0.055
1900	125	0.316	0.036
1902	116	0.381	0.063
1904	114	0.328	0.041
1905	121	0.315	0.041
1906	114	0.338	0.048
1909	108	0.337	0.047
1910	105	0.255	0.028
1911	105	0.328	0.049
1912	110	0.286	0.036
1913	106	0.298	0.039
1914	73	0.384	0.055
1915	67	0.348	0.043
1916	82	0.297	0.042
1917	70	0.385	0.059
1918	81	0.330	0.047
1919	90	0.375	0.059
1920	99	0.286	0.036
1924	85	0.331	0.043
1925	92	0.297	0.038
1929	121	0.281	0.034
1932	117	0.256	0.029

SOURCE: See fn. 43.

[a]Concentration estimate derived from capacity data.

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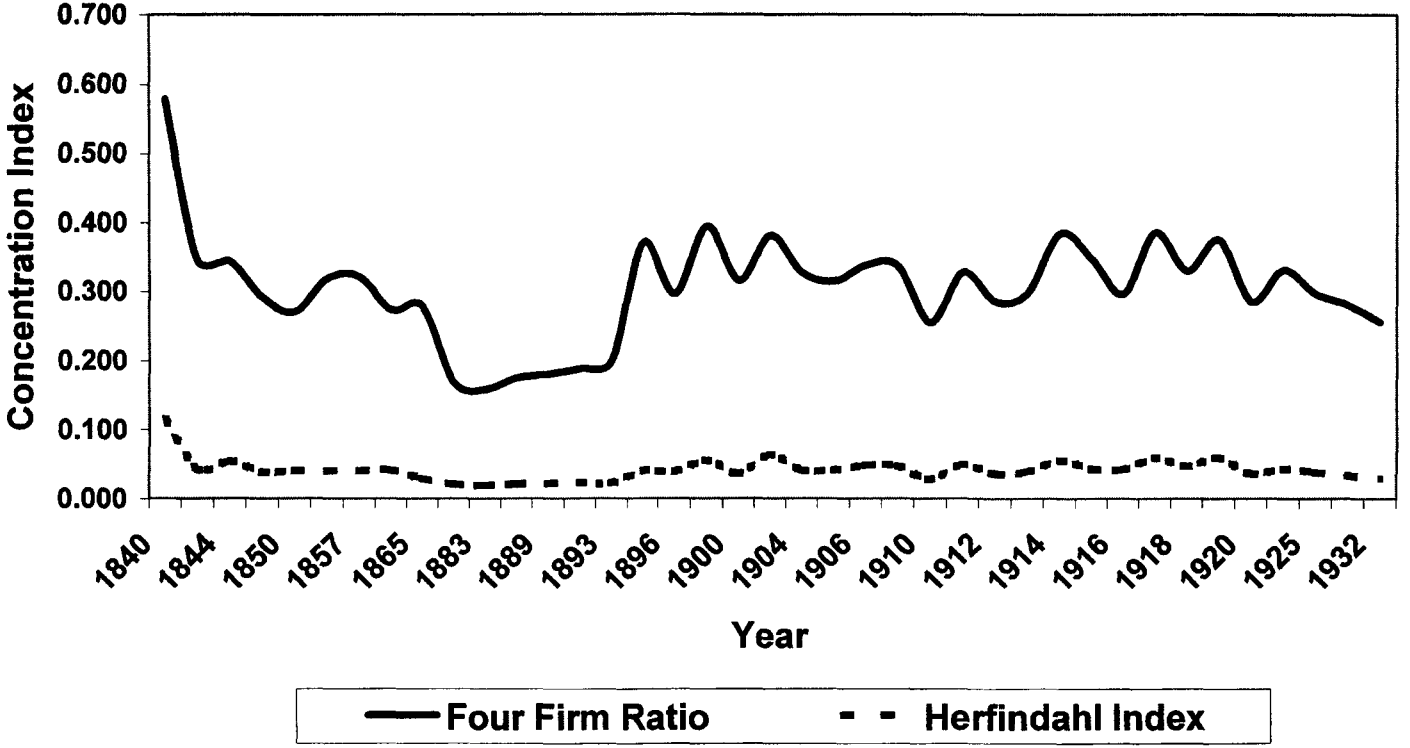

FIGURE 2
INDUSTRY CONCENTRATION
(1840–1932)

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largest textile producers in the United States. Our analysis also indicates, however, that these high levels of concentration predated the revolution by two decades.[59] As one of us (Haber) has examined at length elsewhere, differential access to capital produced by the concentrated nature of Mexico's banking system and financial markets when they began to develop in the 1880s and 1890s gave rise to a rapid increase in concentration.[60] To the extent that one can find a trend after 1900, it is in the direction of a modest decline in concentration. The average four-firm ratio was virtually the same during the revolutionary years (1911–20) as it had been in the decade before the revolution (.332 versus .326). During the decade 1921–30 concentration was actually lower than it had been before the revolution (.299).

Productivity

Even if there were little destruction of physical capital during the revolution, one might imagine that the dramatic changes in institutions that it brought about should have had adverse consequences for industrial productivity. The changes in institutions that governed labor markets (the rise of unions, the increases in wages, the shortening of the workday, the increase in worker militancy on the shop floor) should all have worked to raise the unit costs of labor. Similarly, the partial nationalization and disappearance of a major portion of the banking sector, the decline in lending by the surviving banks for productive activities, and the increase in risk premia associated with new investments in the postrevolutionary era should have worked to increase the unit costs of capital. The net result might have been a decline in both labor productivity (output per worker) and total factor productivity (TFP, output per unit of capital and labor).

The detailed data we have retrieved on the cotton textile industry allow us to test this hypothesis directly. We estimate labor productivity and TFP using the following standard methods. We selected two different measures of aggregate industry output: the real (inflation adjusted) value of production and the volume of production (measured in meters

[59] Interestingly enough, if we extend the analysis to the top ten firms and check their identity, we find that it was the same group of people who had been there prior to, during, and after the revolution. In other words, the revolution was not very revolutionary in this respect, since ownership remained concentrated in the hands of the very elite that it meant to dissolve.

[60] Stephen Haber, "Financial Markets and Industrial Development: A Comparative Study of Government Regulation, Financial Innovation, and Industrial Structure in Brazil and Mexico, 1840–1930," in Stephen Haber, ed., *How Latin America Fell Behind: Essays on the Economic Histories of Brazil and Mexico, 1800–1914* (Stanford, Calif.: Stanford University Press, 1997); idem, "Industrial Concentration and the Capital Markets: A Comparative Study of Brazil, Mexico, and the United States, 1830–1930," *Journal of Economic History* 51 (September 1991).

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of cloth). Both proxies of output have different advantages and disadvantages: real output is sensitive to the price index we have developed; the volume of production gets around the price index problem, but it understates productivity growth because it cannot capture changes in the quality of cloth over time. We therefore employ both measures in order to provide a cross-check on our results. Following Kane, we employ spindlage as a proxy for capital.[61] Following the work of Atack and Sokoloff on the United States and Bernard and Jones on international productivity comparisons, we employ the number of workers as a proxy for the labor input.[62] In order to make appropriate comparisons of pre- and postrevolutionary labor productivity and TFP, we adjust the number of workers to reflect the reduction in daily work hours that occurred with the revolution, from twelve hours per day prior to 1914, to ten from 1914 to 1918, to eight thereafter.

Estimating labor productivity is relatively straightforward: it is simply the real value of output or the physical volume of output divided by the number of worker equivalents (workers adjusted for differences in the length of the workday before and after the revolution).

Estimating TFP involved several more steps. Ideally, we would have had censuses enumerated at the firm level covering both the pre- and postrevolutionary years allowing us to employ panel-data techniques to estimate time trends for TFP growth across different subperiods. Unfortunately, after 1913 the censuses no longer enumerate at the firm level. We therefore had to proceed in two stages. First, we used the 1850–1913 firm-level censuses to estimate a Cobb-Douglas production function of the form $Y = A \cdot K^{\gamma} \cdot L^{1-\gamma}$ with constant returns to scale, where K and L represent the capital and labor inputs and A is a function that captures improvements in technology over time. In order to use linear estimation procedures, we took natural logarithms of a normalized production function of the form $y = k^{\alpha}$ where $y = Y/L$ and $k = K/L$ and added explanatory variables to arrive at the following model.

$$Ln\, y = \alpha + \beta_1 \cdot Ln\, k + \beta_2 \cdot Ln\, L + \beta_3 \cdot Time\ Trend \qquad (1)$$

[61] Kane (fn. 54).

[62] See Jeremy Atack, *Estimation of Economies of Scale in Nineteenth Century United States Manufacturing* (New York: Garland Press, 1985); Kenneth L. Sokoloff, "Was the Transition from the Artisanal Shop to the Nonmechanized Factory Associated with Gains in Efficiency? Evidence from the U.S. Manufacturing Censuses of 1820 and 1850," *Explorations in Economic History* 21, no. 4 (1984); and A. B. Bernard and C. I. Jones, "Productivity across Industries and Countries: Time Series Theory and Evidence," *Review of Economics and Statistics* 78, no. 1 (1996).

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We then estimated TFP directly from output and input data for all years for which we have cross-sectional census data using the weights for capital and labor estimated from the 1850–1913 production function. For any given time t, where we had data on output, spindles, and workers, we estimated total factor productivity employing the following formula:

$$TFP_t = \frac{\sum_i Output_{t,i}}{\left(\sum_i Spindles_{t,i}\right)^{\alpha} \cdot \left(\sum_i Workers_{t,i}\right)^{\beta}} \qquad (2)$$

where α and β are the (normalized) shares of capital and labor as estimated in the panel regression procedure described above and the subscript i identifies the inputs and output of reporting unit i.[63]

Labor productivity was adversely affected by the Mexican Revolution, but the phenomenon of productivity decline appears to have been concentrated in the years of actual violent conflict (see Table 11 and Figure 3). When we proxy output by its real value, output per worker in 1918 was roughly one-third of what it had been in 1913. It then climbed rapidly, nearly regaining its 1913 value by 1921, and then continued growing in a somewhat volatile fashion for the rest of the decade. If we proxy output by meters of cloth produced, labor productivity fell far less dramatically during the revolution, the index moving from 97 in 1913 to 83 in 1918. The data also indicate a rapid recovery: by 1919 output per worker was at an all-time high. And on average, output per worker during the 1920s was 17 percent higher than it had been during the period 1901–10.

Our estimates of TFP tell a slightly different story (see Table 11 and Figure 4). TFP fell anywhere from 40 to 74 percent, depending on whether we proxy output by physical units or real value, respectively. Like labor productivity, however, TFP then recovered quickly, regardless of how output is proxied. When measured by its real value, TFP continued growing through the 1920s. When measured in physical units of cloth produced, however, the results indicate little TFP growth in the 1920s. This may indicate that firms were switching their output to smaller runs of high-value cloth.

[63] The coefficients on capital and labor from the panel regressions were normalized so that $\alpha + \beta = 1$, because our model did not identify any economies of scale. For estimates of TFP that measure output as the real value of production, this resulted in coefficients of 0.59 for capital and 0.41 for labor. For estimates of TFP that measure output in physical units, this resulted in coefficients of 0.48 for capital and 0.52 for labor.

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TABLE 11
INDICES OF AGGREGATE TFP, LABOR PRODUCTIVITY, AND CAPITAL-LABOR RATIO (1850–1933)
MEXICAN COTTON TEXTILE INDUSTRY (BASE YEAR, 1900 = 100)

	Real Value of Output		*Meters of Output*		
Year/Period	*Total Factor Productivity*	*Labor Productivity*	*Total Factor Productivity*	*Labor Productivity*	*Capital-Labor Ratio*
1850	34	12	26	20	57
1854	73	39	30	20	55
1857	36	16	29	19	58
1878			67	66	99
1888			68	43	78
1891	55	55	70	71	93
1893	66	56	66	59	80
1895	84	91	94	100	107
1896	92	94	110	111	103
1899	100	98	105	104	98
1900	100	100	100	100	100
1901	97	99	102	104	104
1902	84	90	95	100	113
1903	102	111	100	107	114
1904	115	121	104	109	109
1905	128	133	106	109	106
1906	125	127	116	117	103
1907	132	122	147	137	87
1908	123	120	111	109	97
1909	102	105	101	104	106
1910	121	124	103	105	104
1911	121	125	109	113	106
1912	136	177	97	105	112
1913	140	82	105	97	109
1918	36	44	70	83	141
1919	64	84	119	148	159
1920	71	88	108	129	144
1921	166	205	119	141	143
1922	127	157	112	133	143
1923	106	131	103	122	143
1924	107	137	99	121	152
1925	121	134	112	121	119
1926	140	173	107	127	143
1927	119	146	101	119	141
1928	126	162	103	126	153
1929	156	193	126	150	143
1930	137	165	101	117	137
1931	166	213	90	111	153
1932	123	162	102	127	159

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TABLE 11 (*cont.*)

	Real Value of Output		*Meters of Output*		
Year/Period	*Total Factor Productivity*	*Labor Productivity*	*Total Factor Productivity*	*Labor Productivity*	*Capital-Labor Ratio*
1933	108	136	123	149	149
1850–1857	47	22	29	20	57
1850–1888			44	34	69
1891–1900	83	82	91	91	97
1901–1910	113	115	108	110	104
1911–1920	95	100	101	113	128
1921–1929	130	160	109	129	142
1930–1933	133	169	104	126	150

SOURCE: See fn. 43.

VI. CONCLUSIONS AND IMPLICATIONS

We obtain different impacts of instability on economic performance depending on the specific phase of the revolution. Our analysis indicates that in the short run the Mexican Revolution exerted a powerful effect on investor confidence, output, and productivity. Separating out the effects of the interdiction of factor and product markets caused by military action from the effects produced solely by political instability during the years 1914–17 is not possible. Our analysis of the 1918–34 period of instability indicates, however, that it was most likely the inability to move goods to market or to obtain spare parts and supplies that dampened growth during the period 1914–17. The period 1918–34 was characterized by political instability, changes in institutions that should have dampened investment and growth, and uncertainty about the future trajectory of political and institutional change. Yet the evidence we have retrieved indicates that investors were far less sensitive to these factors than the extant theoretical and empirical literature would indicate.

The implications of this analysis are four. First, our analysis suggests that the relationship between political stability and economic growth is in need of theoretical refinement. There is no clear one-to-one relationship between political instability, the perception of investors that their property rights are insecure, and economic performance. In fact, one can easily imagine that causality runs the other way: when polities are weak they are less likely to be able to abrogate the property rights of powerful interest groups, which would encourage investment and growth.

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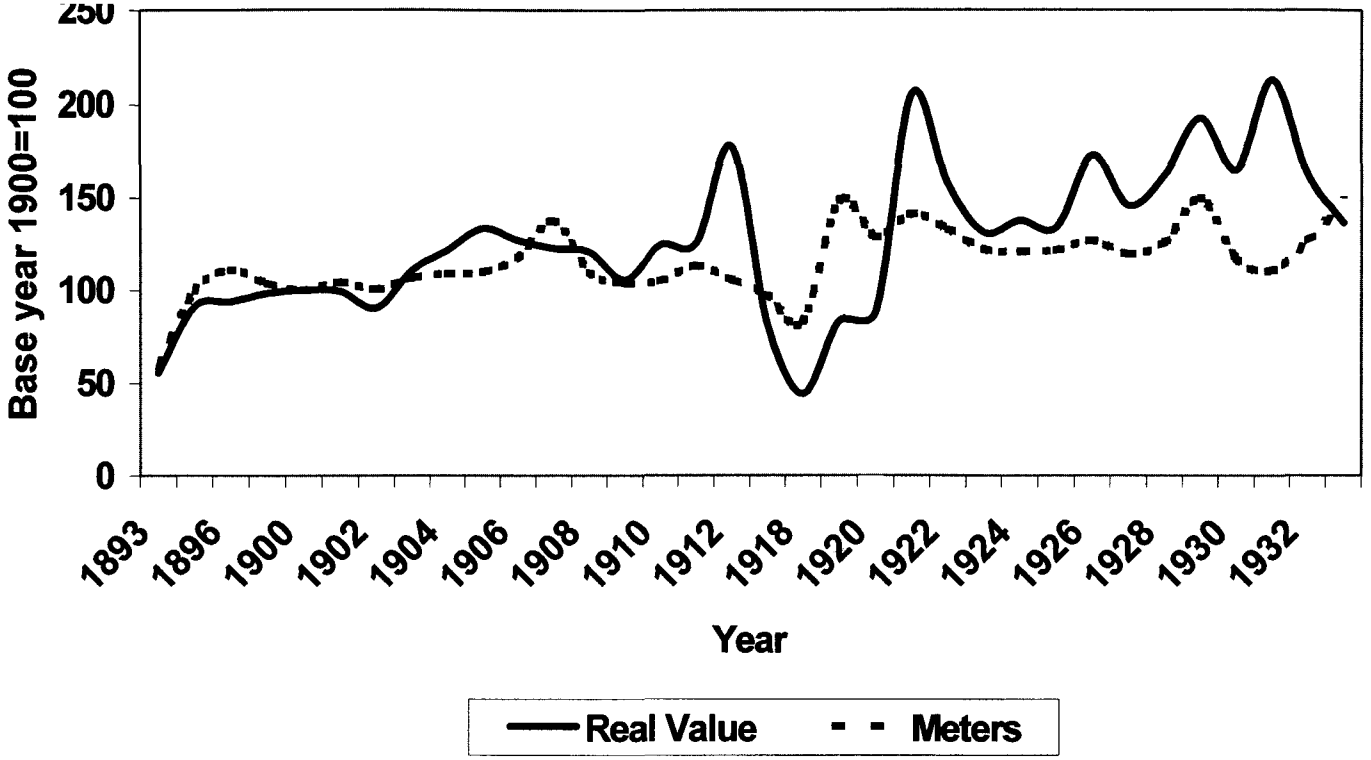

FIGURE 3
INDICES OF LABOR PRODUCTIVITY IN MEXICAN COTTON TEXTILES INDUSTRY
(1893–1933)

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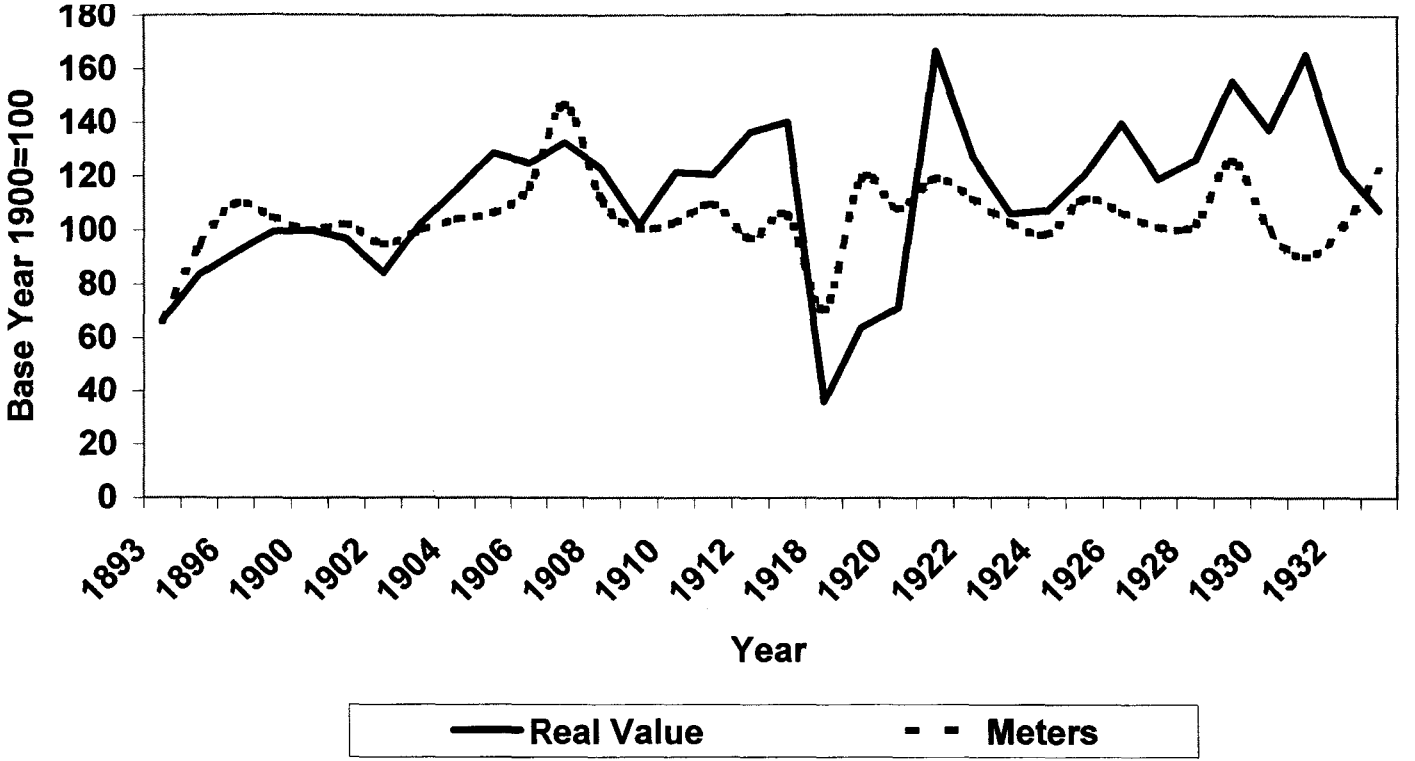

FIGURE 4
INDICES OF AGGREGATE TFP IN MEXICAN COTTON TEXTILE INDUSTRY
(1893–1933)

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Second, our analysis suggests that the theoretical literature on institutions and growth is in need of refinement as well. The new institutionalism would suggest two alternative hypotheses about environments such as existed in revolutionary Mexico. One hypothesis suggests that Mexico's manufacturing sector would not have grown at all (and likely would have shrunk) because of the changes brought by the revolution. Based on the data we have been able to analyze here, this hypothesis is easy to reject: new firms entered the market; there was substantial new investment in plant and equipment; and productivity continued growing after the revolution. A second, weaker, hypothesis suggests that the revolution should have *slowed* the rate of growth of Mexican industry. This hypothesis is more difficult to evaluate because it depends on which hypothetical Mexican economy one believes is the most appropriate counterfactual: the rapidly growing economy from 1890 to 1905 (when a rise in tariffs and the reform of general incorporation laws permitted the rapid expansion of new industries); or the Mexican economy from 1905 to 1910 (when the effects of those innovations had already been exhausted and the manufacturing sector was growing at a more modest pace). If one accepts the view that the 1905–10 economy is the most appropriate counterfactual, the second hypothesis can be dismissed as well. If one insists that the 1890–1905 economy is the appropriate counterfactual, then the results are indeterminate. Pending the outcome of other empirical studies of the type conducted here, we are left to wonder whether perhaps the new institutional economics has not overstated the institutional requirements of economic growth.

Third, our analysis suggests that the Mexican Revolution did not have the destructive impact imagined by an earlier generation of historians. Our results support John Womack's contention that the revolution had far less of a negative impact on the economy than the extant historiography asserts.[64] They are also consistent with what we know about the history of Mexico's most important export industry, crude petroleum, where output climbed every year throughout the revolution.[65] In addition, they are also consistent with the macroeconomic model estimated by Clark W. Reynolds, which indicates that the revolution's economic costs had largely been mitigated by the 1940s.[66]

Finally, our analysis suggests that the reaction of entrepreneurs to political instability and institutional change may depend on the size composition of firms in any particular economy. The data analyzed here

[64] Womack (fn. 39).
[65] Brown (fn. 40); Hall (fn. 40).
[66] Reynolds (fn. 29), appendix C.

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suggest that large firms may be better able than small firms to mitigate the adverse consequences of political instability. The greater wealth of their owners may mean that it is easier for them to contract around the potential problems created by an unstable polity.

Clearly, more work needs to be done on cases of this type in order to further refine these three bodies of literature. That will require, however, that social scientists engage in the kind of detailed historical analysis that has long been the province of historians and that historians conduct controlled case studies that are informed by the theoretical and analytic methods of the social sciences.[67]

[67] One reason that single-case studies often contribute little to theory development is that historians usually attempt to study all those aspects of the case that they judge interesting or unusual, rather than systematically study particular issues that are relevant to testing or building social science theories. The result is that social scientists are often forced to conduct their own case studies, but they do so without the detailed knowledge of past societies that is the comparative advantage of historians. See George (fn. 1), 49–51.

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Review Article

NEOCLASSICAL REALISM AND THEORIES OF FOREIGN POLICY

By GIDEON ROSE*

Michael E. Brown et al., eds. *The Perils of Anarchy: Contemporary Realism and International Security*. Cambridge: MIT Press, 1995, 519 pp.

Thomas J. Christensen. *Useful Adversaries: Grand Strategy, Domestic Mobilization, and Sino-American Conflict, 1947–1958*. Princeton: Princeton University Press, 1996, 319 pp.

Randall L. Schweller. *Deadly Imbalances: Tripolarity and Hitler's Strategy of World Conquest*. New York: Columbia University Press, 1998, 267 pp.

William Curti Wohlforth. *The Elusive Balance: Power and Perceptions during the Cold War*. Ithaca, N.Y.: Cornell University Press, 1993, 317 pp.

Fareed Zakaria. *From Wealth to Power: The Unusual Origins of America's World Role*. Princeton: Princeton University Press, 1998, 199 pp.

FOR two decades international relations theory has been dominated by the debate between neorealists and their various critics.[1] Much of the skirmishing has occurred over questions about the nature of the international system and its effect on patterns of international outcomes such as war and peace. Thus scholars have disputed whether a multipolar system generates more conflict than a bipolar one, or

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[1] The seminal neorealist text is Kenneth N. Waltz, *Theory of International Politics* (Reading, Mass.: Addison-Wesley, 1979). Debates over neorealism can be found in Robert O. Keohane, ed., *Neorealism and Its Critics* (New York: Columbia University Press, 1986); Barry Buzan et al., *The Logic of Anarchy: Neorealism to Structural Realism* (New York: Columbia University Press, 1993); and David A. Baldwin, ed., *Neorealism and Neoliberalism: The Contemporary Debate* (New York: Columbia University Press, 1993). For the current state of the debate, see Robert Powell, "Anarchy in International Relations Theory: The Neorealist-Neoliberal Debate," *International Organization* 48 (Spring 1994); and Brown et al., an invaluable collection of important recent articles on realism from the journal *International Security*.

World Politics 51 (October 1998), 144–72

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whether international institutions can increase the incidence of international cooperation. Because neorealism tries to explain the outcomes of state interactions, it is a theory of international politics; it includes some general assumptions about the motivations of individual states but does not purport to explain their behavior in great detail or in all cases. As Kenneth Waltz has written:

> [A] theory of international politics . . . can describe the range of likely outcomes of the actions and interactions of states within a given system and show how the range of expectations varies as systems change. It can tell us what pressures are exerted and what possibilities are posed by systems of different structure, but it cannot tell us just how, and how effectively, the units of a system will respond to those pressures and possibilities. . . .To the extent that dynamics of a system limit the freedom of its units, their behavior and the outcomes of their behavior become predictable . . . [but in general] a theory of international politics bears on the foreign policies of nations while claiming to explain only certain aspects of them.[2]

From such a perspective, much of the daily stuff of international relations is left to be accounted for by theories of foreign policy. These theories take as their dependent variable not the pattern of outcomes of state interactions, but rather the behavior of individual states. Theories of foreign policy seek to explain what states try to achieve in the external realm and when they try to achieve it. Theory development at this level, however, has received comparatively little attention.

Some, like Waltz himself, simply rule the subject out of bounds due to its complexity. Theories, he argues, must deal with the coherent logic of "autonomous realms." Because foreign policy is driven by both internal and external factors, it does not constitute such an autonomous realm, and therefore we should not strive for a truly theoretical explanation of it. Instead, we must rest content with mere "analyses" or "accounts," which include whatever factors appear relevant to a particular case.[3] Others have rejected such diffidence, and their recent efforts to construct a general theory of foreign policy fall into several broad schools.

[2] Waltz (fn. 1), 71–72. See also the discussion of this point in Thomas J. Christensen and Jack Snyder, "Chain Gangs and Passed Bucks: Predicting Alliance Patterns in Multipolarity," *International Organization* 44 (Spring 1990), 38 fn. 3; Fareed Zakaria, "Realism and Domestic Politics," in Brown et al.; and Schweller, *Deadly Imbalances*, 7–11. Robert Powell has questioned whether it is even useful or possible to speak of theories of international politics in isolation, since systemic theories must necessarily include nontrivial assumptions about states' preferences and behavior to begin with; see Powell (fn. 1).

[3] "Much is included in an analysis," he writes; "little is included in a theory." Kenneth N. Waltz, "International Politics Is Not Foreign Policy," *Security Studies* 6 (Autumn 1996), 54–55. Waltz was responding to the suggestion that scholars should devise and test theories of foreign policy emerging from his neorealist framework; see Colin Elman, "Horses for Courses: Why *Not* Neorealist Theories of Foreign Policy?" *Security Studies* 6 (Autumn 1996).

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The first and most common school is composed of *Innenpolitik* theories, which stress the influence of domestic factors on foreign policy. The others are all variants of realism and highlight the influence of the international system on state behavior. "Offensive realism" (sometimes called "aggressive realism") essentially reverses *Innenpolitik* logic and argues that systemic factors are always dominant. "Defensive realism" takes a softer line, arguing in practice that systemic factors drive some kinds of state behavior but not others.[4]

The works under review here collectively set out a fourth school, which I term "neoclassical realism." It explicitly incorporates both external and internal variables, updating and systematizing certain insights drawn from classical realist thought. Its adherents argue that the scope and ambition of a country's foreign policy is driven first and foremost by its place in the international system and specifically by its relative material power capabilities. This is why they are realist. They argue further, however, that the impact of such power capabilities on foreign policy is indirect and complex, because systemic pressures must be translated through intervening variables at the unit level. This is why they are neoclassical.

Neoclassical realists argue that relative material power establishes the basic parameters of a country's foreign policy; they note, in Thucydides' formula, that "the strong do what they can and the weak suffer what they must."[5] Yet they point out that there is no immediate or perfect

[4] Offensive and defensive realism are not only theories of foreign policy, but both schools commonly address foreign policy behavior and it is this aspect of them that will be treated here. The distinction between offensive/aggressive and defensive realism was first made by Jack Snyder in *Myths of Empire: Domestic Politics and International Ambition* (Ithaca, N.Y.: Cornell University Press, 1991), 11–12, and has been widely adopted since then. See the following in Brown et al.: Sean M. Lynn-Jones and Steven E. Miller, "Preface"; Zakaria, "Realism and Domestic Politics"; and John Mearsheimer, "The False Promise of International Institutions." See also Benjamin Frankel, "The Reading List: Debating Realism," *Security Studies* 5 (Autumn 1995), esp. 185–87; Fareed Zakaria, *From Wealth to Power*; Randall L. Schweller, "Neorealism's Status Quo Bias: What Security Dilemma?" *Security Studies* 5 (Spring 1996), esp. 114–15; Michael C. Desch, "Why Realists Disagree about the Third World," *Security Studies* 5 (Spring 1996), esp. 365; Eric J. Labs, "Beyond Victory: Offensive Realism and the Expansion of War Aims," *Security Studies* 6 (Summer 1997); and Stephen M. Walt, "International Relations: One World, Many Theories," *Foreign Policy* 110 (Spring 1998), 37. Other authors make the same distinction but use idiosyncratic terminology. Thus Robert G. Kaufman substitutes "pessimistic structural" for "offensive" and "optimistic structural" for "defensive"; Stephen G. Brooks substitutes "neorealist" for "offensive" and "postclassical" for "defensive"; and Charles Glaser calls his variant "contingent " instead of "defensive" realism. See Kaufman, "A Two-Level Interaction: Structure, Stable Liberal Democracy, and U.S. Grand Strategy," *Security Studies* 3 (Summer 1994), 683ff.; Brooks, "Dueling Realisms," *International Organization* 51 (Summer 1997); and Glaser, "Realists as Optimists: Cooperation as Self-Help," in Brown et al. Finally, in an overview of recent realist theorizing, Joseph M. Grieco puts all neorealists into the defensive camp; see Grieco, "Realist International Theory and the Study of World Politics," in Michael W. Doyle and G. John Ikenberry, eds., *New Thinking in International Relations Theory* (Boulder, Colo.: Westview Press, 1997), esp. 166–67.

[5] Robert B. Strassler, ed., *The Landmark Thucydides: A Comprehensive Guide to the Peloponnesian War* (New York: Free Press, 1996), 5.89.

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transmission belt linking material capabilities to foreign policy behavior. Foreign policy choices are made by actual political leaders and elites, and so it is their perceptions of relative power that matter, not simply relative quantities of physical resources or forces in being. This means that over the short to medium term countries' foreign policies may not necessarily track objective material power trends closely or continuously. Furthermore, those leaders and elites do not always have complete freedom to extract and direct national resources as they might wish. Power analysis must therefore also examine the strength and structure of states relative to their societies, because these affect the proportion of national resources that can be allocated to foreign policy. This means that countries with comparable gross capabilities but different state structures are likely to act differently. And finally, systemic pressures and incentives may shape the broad contours and general direction of foreign policy without being strong or precise enough to determine the specific details of state behavior. This means that the influence of systemic factors may often be more apparent from a distance than from up close—for example, in significantly limiting the menu of foreign policy choices considered by a state's leaders at a particular time, rather than in forcing the selection of one particular item on that menu over another.

For all these reasons, the neoclassical realists believe, understanding the links between power and policy requires close examination of the contexts within which foreign policies are formulated and implemented.[6] After briefly sketching out the school's theoretical competitors, the remainder of this essay will discuss its major works and distinctive characteristics and assess its contribution to the field.[7]

Four Theories of Foreign Policy

Statesmen, historians, and political philosophers have long pondered what causes states to adopt certain kinds of foreign policies. Yet most

[6] In their stress on intervening variables, constrained choice, and historical context, as in other ways, neoclassical realists have much in common with historical institutionalists in comparative politics, who study "intermediate-level institutions that mediate the effects of macro-level socioeconomic structures." Neoclassical realists would agree that "this focus on how macrostructures . . . are magnified or mitigated by intermediate-level institutions allows us to explore the effects of such overarching structures on political outcomes, but avoid the structural determinism that often characterizes . . . [purely systemic] approaches." Kathleen Thelen and Sven Steinmo, "Historical Institutionalism in Comparative Politics," in Sven Steinmo et al., eds., *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992), 11.

[7] For reasons of space and coherence this essay will focus on the general features of neoclassical realism as a theory of foreign policy rather than on the empirical contributions the various neoclassical realist authors have made to the literatures on their particular historical subjects.

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have sought answers in intricate combinations of case-specific factors, considering it hubris to think that one could construct parsimonious theories of foreign policy that would have much explanatory power. Analysts interested in theory building, meanwhile, have tended to follow one of three distinct paths.

The most common approach has been to assume that foreign policy has its sources in domestic politics. These *Innenpolitik* theories argue that internal factors such as political and economic ideology, national character, partisan politics, or socioeconomic structure determine how countries behave toward the world beyond their borders. A pure, monadic version of such theorizing in a liberal vein would be the notion that the behavior of democracies is different from that of nondemocracies. A modified, dyadic version would be the notion of the "democratic peace," which holds that the behavior of democracies is different when they deal with each other. There are many variants of the *Innenpolitik* approach, each favoring a different specific domestic independent variable, but they all share a common assumption—that foreign policy is best understood as the product of a country's internal dynamics. To understand why a particular country is behaving in a particular way, therefore, one should peer inside the black box and examine the preferences and configurations of key domestic actors.[8]

The chief problem with *Innenpolitik* theories is that pure unit-level explanations have difficulty accounting for why states with similar domestic systems often act differently in the foreign policy sphere and why dissimilar states in similar situations often act alike. Some scholars grounded in the neorealist model of international politics have sought to avoid this problem by applying that model to individual state behavior as well as to international outcomes. They have generated two the-

[8] For a brief history of *Innenpolitik* theorizing about foreign policy, see Zakaria, in Brown et al.; for a powerful restatement of the *Innenpolitik* tradition in modern social science terms, see Andrew Moravcsik, "Taking Preferences Seriously: A Liberal Theory of International Politics," *International Organization* 51 (Autumn 1997). On the concept of the democratic peace, see Michael E. Brown et al., eds., *Debating the Democratic Peace* (Cambridge: MIT Press, 1996). Other notable recent examinations of Innenpolitik variables include Jack S. Levy, "Domestic Politics and War," in Robert I. Rotberg and Theodore K. Rabb, eds., *The Origin and Prevention of Major Wars* (New York: Cambridge University Press, 1988); Richard Rosecrance and Arthur A. Stein, eds., *The Domestic Bases of Grand Strategy* (Ithaca, N.Y.: Cornell University Press, 1993); David Skidmore and Valerie M. Hudson, eds., *The Limits of State Autonomy: Societal Groups and Foreign Policy Formulation* (Boulder, Colo.: Westview, 1993); Joe D. Hagan, "Domestic Political Systems and War Proneness," *Mershon International Studies Review* 38, supplement 2 (October 1994); idem, "Domestic Political Explanations in the Analysis of Foreign Policy," in Laura Neack et al., eds., *Foreign Policy Analysis: Continuity and Change in Its Second Generation* (Englewood Cliffs, N.J.: Prentice Hall, 1995); and Matthew Evangelista, "Domestic Structures and International Change," in Doyle and Ikenberry (fn. 4).

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ories of foreign policy, offensive and defensive realism, which both start from the assumption that the international system is composed of unitary, rational states motivated by a desire for security. The theories differ over what incentives they assume the international system offers such states and how they are likely to respond, as well as over the degree to which they assume the tension inherent in anarchy can be modulated by other factors such as the state of military technology.

Offensive realism assumes that international anarchy is generally Hobbesian—that apart from situations of bipolarity or nuclear deterrence, security is scarce and states try to achieve it by maximizing their relative advantage.[9] In the offensive realist world rational states pursuing security are prone to take actions that can lead to conflict with others—and usually do: "States begin with a defensive motive, but are forced to think and sometimes act offensively because of the structure of the international system."[10] Domestic differences between countries are considered to be relatively unimportant, because pressures from the international system are assumed to be strong and straightforward enough to make similarly situated states behave alike, regardless of their internal characteristics. According to this view, foreign policy activity is the record of nervous states jockeying for position within the framework of a given systemic power configuration. To understand why a state is behaving in a particular way, offensive realists suggest, one should examine its relative capabilities and its external environment, because those factors will be translated relatively smoothly into foreign policy and shape how the state chooses to advance its interests.

Defensive realism, in contrast, assumes that international anarchy is often more benign—that is, that security is often plentiful rather than scarce—and that normal states can understand this or learn it over time from experience.[11] In the defensive realist world rational states pursuing security can often afford to be relaxed, bestirring themselves only to respond to external threats, which are rare. Even then, such states generally respond to these threats in a timely manner by "balancing" against them, which deters the threatener and obviates the need for actual conflict. The chief exception to this rule is when certain situations

[9] Examples of offensive realist analysis include John Mearsheimer, "Back to the Future: Instability in Europe after the Cold War," in Brown et al.; idem (fn. 4); and Labs (fn. 4).

[10] Mearsheimer (fn. 4), 337 fn. 24.

[11] Prominent defensive realist authors include Stephen Van Evera, Stephen M. Walt, Jack Snyder, Barry Posen, and Charles L. Glaser; for citations to works in the defensive realist camp, see Zakaria (fn. 2), 476 fn. 34. For some of the reasons why defensive realists view systemic incentives as less Hobbesian than offensive realists do, see Brooks (fn. 4).

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lead security-seeking states to fear each other, such as when prevailing modes of warfare favor the offensive.[12] Foreign policy activity, in this view, is the record of rational states reacting properly to clear systemic incentives, coming into conflict only in those circumstances when the security dilemma is heightened to fever pitch. But this dance is repeatedly interrupted, according to defensive realists, by rogue states that misread or ignore the true security-related incentives offered by their environment.

Innenpolitik theories of foreign policy privilege domestic independent variables, while offensive realism privileges systemic ones. Although both schools are clear, bold, and predictive, the predictions of both are often oversimplified and inaccurate. (Pure systemic theories face the reverse anomaly from their *Innenpolitik* counterparts: states in similar structural positions do not always act alike.) The adherents of defensive realism also view it as a systemic theory, but in practice they rely on both systemic and domestic independent variables to account for different kinds of foreign policy behavior. Defensive realists view the international system as the cause of what might be called "natural" conduct, which includes a resort to aggression only if military technology or certain other factors provide clear incentives to strike first. They consider the remainder of aggressive behavior to be "unnatural" and account for it by auxiliary hypotheses involving domestic variables.

Neoclassical realism challenges important elements of all three of these perspectives. *Innenpolitik* theories are misguided, the neoclassical realists say, because if there is any single, dominant factor shaping the broad pattern of nations' foreign policies over time, it is their relative material power vis-à-vis the rest of the international system—and so this is where analysis of foreign policy should begin. Defensive realism is misguided for a similar reason, because its emphasis on countries' responses to threats overlooks the fact that one's perceptions of threat are partly shaped by one's relative material power. The theory is further

[12] Modern offense-defense theory is rooted in Robert Jervis's presentation of the security dilemma; see Jervis, "Cooperation under the Security Dilemma," *World Politics* 30 (January 1978). Recent defensive realist works stressing the importance of offense-defense variables are Glaser (fn. 4); Ted Hopf, "Polarity, the Offense-Defense Balance, and War," *American Political Science Review* 85 (June 1991); Sean M. Lynn-Jones, "Offense-Defense Theory and Its Critics," *Security Studies* 4 (Summer 1995); Stephen Van Evera, "Offense, Defense, and the Causes of War," *International Security* 22 (Spring 1998); and Charles L. Glaser and Chaim Kaufmann, "What Is the Offense-Defense Balance and Can We Measure It?" *International Security* 22 (Spring 1998); see also Jack S. Levy, "The Offensive/Defensive Balance of Military Technology: A Theoretical and Historical Analysis," *International Studies Quarterly* 28 (1984). In addition to military technology, the offense-defense balance is sometimes held to incorporate judgments about whether power resources are cumulative and therefore offer a tempting target for potential aggressors; for an analysis of this question, see Peter Liberman, *Does Conquest Pay?* (Princeton: Princeton University Press, 1996).

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flawed because its first-order systemic argument does not account for much actual behavior, thus forcing its adherents to contract out the bulk of their explanatory work to domestic-level variables introduced on an ad hoc basis.[13]

The neoclassical realists believe that *Innenpolitikers'* preferred independent variables must be relegated to second place analytically because over the long run a state's foreign policy cannot transcend the limits and opportunities thrown up by the international environment. "A good theory of foreign policy," one of them writes, "should first ask what effect the international system has on national behavior, because the most powerful generalizable characteristic of a state in international relations is its relative position in the international system."[14] Moreover, because the influence of structural factors such as relative power is not always obvious even to political actors themselves, neoclassical realists caution that analysts who do not begin by looking carefully for such influence may mistakenly attribute causal significance to other factors that are more visible but in reality are only epiphenomenal.

By making relative power their chief independent variable, the neoclassical realists are forced to choose sides in the perennial debate about just how that concept should be defined and operationalized. They generally confront this issue directly, setting out their reasons for reserving the term "power" to refer to "the capabilities or resources . . . with which states can influence each other" (Wohlforth, 4).[15] They distinguish between these power resources and a country's foreign policy

[13] Stephen Van Evera (fn. 12), for example, has recently argued that "a chief source of insecurity in Europe since medieval times has been [the] false belief that security was scarce." In general, he claims, "States are seldom as insecure as they think they are . . . [the] exaggeration of insecurity, and the bellicose conduct it fosters, are prime causes of national insecurity and war" (pp. 42–43). Neoclassical realists question the point of constructing an elaborate systemic theory around the assumption that states are driven by a quest for security only then to argue that on security-related questions states suffer from false consciousness most of the time. The original neoclassical realist critique of defensive realism along these lines is Zakaria (fn. 2); see also Schweller (fn. 4).

[14] Zakaria (fn. 2), 482.

[15] Neoclassical realists acknowledge that in contrast to this "material" definition, the "relational" definition of power—in Robert Dahl's formulation, "A's ability to get B to do something it would not otherwise do"—has certain strengths, but they find it so fraught with theoretical and empirical difficulties as to be practically unusable. In addition to stressing the problems of empirically operationalizing a relational definition, they argue that employing such an approach makes it difficult to say much about the causal role of power factors relative to other potential independent variables. As Wohlforth writes: "If one defines power as control [over other actors, outcomes, or the international system as a whole], one must infer the relationship of power from outcomes. . . . Inferring the balance of power from outcomes and then using the balance of power to explain those outcomes appears to be a dubious analytical exercise." For a clear discussion of these issues, see Wohlforth, 1–17. For arguments against the use of broad material definitions of power, see Robert Dahl, "The Concept of Power," *Behavioral Science* 2 (July 1957); and David A. Baldwin, *Paradoxes of Power* (New York: Basil Blackwell, 1989). See also Waltz (fn. 1), 191–92; and Robert O. Keohane, "Realism, Neorealism and the Study of World Politics," in Keohane (fn. 1), 11.

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"interests," by which they mean the goals or preferences that guide the country's external behavior.

Instead of assuming that states seek security, neoclassical realists assume that states respond to the uncertainties of international anarchy by seeking to control and shape their external environment. Regardless of the myriad ways that states may define their interests, this school argues, they are likely to want more rather than less external influence, and pursue such influence to the extent that they are able to do so.[16] The central empirical prediction of neoclassical realism is thus that over the long term the relative amount of material power resources countries possess will shape the magnitude and ambition—the envelope, as it were—of their foreign policies: as their relative power rises states will seek more influence abroad, and as it falls their actions and ambitions will be scaled back accordingly.

Yet a theory of foreign policy limited to systemic factors alone is bound to be inaccurate much of the time, the neoclassical realists argue, which is why offensive realism is also misguided. To understand the way states interpret and respond to their external environment, they say, one must analyze how systemic pressures are translated through unit-level intervening variables such as decision-makers' perceptions and domestic state structure. In the neoclassical realist world leaders can be constrained by both international and domestic politics. International anarchy, moreover, is neither Hobbesian nor benign but rather murky and difficult to read. States existing within it have a hard time seeing clearly whether security is plentiful *or* scarce and must grope their way forward in twilight, interpreting partial and problematic evidence according to subjective rules of thumb.

In this respect, therefore, neoclassical realists occupy a middle ground between pure structural theorists and constructivists. The former implicitly accept a clear and direct link between systemic constraints and unit-level behavior; the latter deny that any objective systemic constraints exist at all, arguing instead that international reality is socially constructed and that "anarchy is what states make of it."[17] Neoclassical

[16] One member of the school writes that "classical realists have written carelessly about 'power-maximization,' leaving unclear whether states expand for material resources or as a consequence of material resources. [Neoclassical realism] makes the latter assumption; increased resources give rise to greater ambitions. States are not resource-maximizers but influence-maximizers" (Zakaria, 19). Schweller considers this assumption too limiting and advocates incorporating a broader range of potential state preferences into neoclassical realist theorizing; see *Deadly Imbalances*, 18–26, 217 fn. 37; and idem (fn. 4).

[17] See Alexander Wendt, "Anarchy Is What States Make of It," *International Organization* 46 (Spring 1992); and idem, "Constructing International Politics," *International Security* 20 (Summer 1995).

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realists assume that there is indeed something like an objective reality of relative power, which will, for example, have dramatic effects on the outcomes of state interactions. They do not assume, however, that states necessarily apprehend that reality accurately on a day-to-day basis. Hans Morgenthau famously argued that with his theory one could peer over the statesman's shoulder; neoclassical realists believe the same but feel that in doing so one sees through a glass, darkly. The world states end up inhabiting, therefore, is indeed partly of their own making.

It might be asked why, given their outlook, these authors are not best described simply as "classical" realists—why we must add yet another bit of jargon to an already burgeoning lexicon. The reason is that unfortunately there *is* no simple, straightforward classical realism. Rather, the term covers a host of authors who differ greatly from one another in assumptions, objectives, and methodologies, and thus is not helpful for current purposes.[18] What sets the authors under discussion apart as a distinct school worthy of recognition is both the common nature of their quest—to develop an explicit and generalizable theory of foreign policy—and the common threads of their argumentation. Their central concern is to build on and advance the work of previous students of relative power by elaborating the role of domestic-level intervening variables, systematizing the approach, and testing it against contemporary competitors. The differences among the four general theories are summarized in Table 1.

Because neoclassical realism stresses the role played by both independent and intervening variables, it carries with it a distinct methodological preference—for theoretically informed narratives, ideally supplemented by explicit counterfactual analysis, that trace the ways different factors combine to yield particular foreign policies. The neoclassical realist archetype is Thucydides' *History of the Peloponnesian War*, which grounds its narrative in the theoretical proposition that the "real cause" of the war was "the growth of the power of Athens, and the alarm which this inspired in Sparta," and then describes how systemic

[18] Michael Doyle has recently distinguished three separate theoretical strands within the classical realist tradition: Machiavelli's "fundamentalism," which emphasizes the importance of individual ambition; Hobbes's "structuralism," which emphasizes the importance of the international system; and Rousseau's "constitutionalism," which emphasizes the importance of unit-level factors such as the nature and strength of state-society relations. All three strands, he argues, have their *fons et origo* in Thucydides' "complex" realism, which incorporates variables from each level of analysis; see Michael W. Doyle, *Ways of War and Peace* (New York: W. W. Norton, 1997). For analysis of previous modern "classical" realists, see Michael Joseph Smith, *Realist Thought from Weber to Kissinger* (Baton Rouge: Louisiana State University Press, 1986).

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TABLE 1
FOUR THEORIES OF FOREIGN POLICY

Theory	*View of International System*	*View of Units*	*Causal Logic*
Innenpolitik theories	unimportant	highly differentiated	internal factors → foreign policy
Defensive realism	occasionally important; anarchy's implications variable	highly differentiated	systemic incentives *or* internal factors → foreign policy (two sets of independent variables in practice, driving "natural" and "unnatural" behavior respectively)
Neoclassical realism	**important; anarchy is murky**	**differentiated**	**systemic incentives (independent variable) → internal factors (intervening variables) → foreign policy**
Offensive realism	very important; anarchy is Hobbesian	undifferentiated	systemic incentives → foreign policy

incentives were translated through unit-level variables into the foreign policies of the various Greek city-states.[19]

In keeping with this tradition, the major neoclassical realist works to date have been narratives or case studies of how great powers have responded to relative material rise or decline: Fareed Zakaria on the United States; William Curti Wohlforth on the Soviet Union; Thomas J. Christensen on the United States and China; Randall L. Schweller on the belligerents of World War II. These same authors have also tackled issues ranging from the formation of alliances to the role of domestic politics in war initiation to the challenges facing contemporary American policymakers. Their collective output represents some of the most substantial and sophisticated work on foreign policy currently available.[20]

[19] Strassler (fn. 5), 1.23. For an excellent discussion of Thucydides as an international relations theorist, see Doyle (fn. 18), 49–92; other interesting recent treatments include Mark V. Kauppi, "Thucydides: Character and Capabilities," *Security Studies* 5 (Winter 1995); and Ashley J. Tellis, "Political Realism: The Long March to Scientific Theory," *Security Studies* 5 (Winter 1995), 12–25.

[20] Recent statecentric writings, particularly on foreign economic policy, represent a comparably rigorous and impressive literature; for a sampling of this work, see G. John Ikenberry et al., eds., *The State and American Foreign Economic Policy* (Ithaca, N.Y.: Cornell University Press, 1988); and G. John Ikenberry, ed., *American Foreign Policy: Theoretical Essays*, 2d ed. (New York: HarperCollins, 1996). Another approach, known as comparative foreign policy or foreign policy analysis, has generally produced little cumulation of knowledge or lasting impact; its recent offerings can be sampled in Charles F. Hermann et al., eds., *New Directions in the Study of Foreign Policy* (Winchester, Mass.: Unwin Hyman, 1987); and Neack et al. (fn. 8).

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The Rise and Fall of the Great Powers

The primary subject of all the major neoclassical realist works is the impact of relative power on foreign policy—which makes them the third wave of books on this hardy realist theme in the last two decades. The first wave came in the 1980s, as Robert Gilpin, Paul Kennedy, and Michael Mandelbaum all used relative power as the ordering principle for impressive and wide-ranging studies of international politics over several centuries. They argued that beneath the apparent chaos of events lay substantial regularities. As Mandelbaum put it, "Similar security policies recur throughout history and across the international system in states that, whatever their differences, occupy similar positions in the system. . . . The security policies of very strong states are different from those of very weak ones, and both differ from those of states that are neither very strong nor very weak."[21] When individual states moved from one rank to the next, moreover, their foreign policies eventually followed suit: "The historical record suggests," Kennedy wrote, "that there is a very clear connection *in the long run* between an individual Great Power's economic rise and fall and its growth and decline as an important military power (or world empire)."[22] The reason for this pattern, Gilpin explained, was that states were continually "tempted to try to increase [their] control over the environment. . . . A more wealthy and more powerful state . . . will select a larger bundle of security and welfare goals than a less wealthy and less powerful state."[23]

The second wave consisted of works by Aaron L. Friedberg and Melvyn P. Leffler that traced precisely how a shift in relative power led to a shift in the foreign policy of a particular country.[24] Friedberg began his analysis with the relative decline of Britain's economic and military strength around the turn of the twentieth century; his goal was to understand when and how this decline started to affect Britain's external behavior. As he noted: "Structural considerations provide a useful point from which to begin analysis of international politics rather than a place at which to end it. Even if one acknowledges that structures exist

[21] Michael Mandelbaum, *The Fates of Nations: The Search for National Security in the Nineteenth and Twentieth Centuries* (Cambridge: Cambridge University Press, 1988), 4, 2.

[22] Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Random House, 1987), xxii, emphasis in original.

[23] Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981), 94–95, 22–23.

[24] Aaron L. Friedberg, *The Weary Titan: Britain and the Experience of Relative Decline, 1895–1905* (Princeton: Princeton University Press, 1988); and Melvyn P. Leffler, *A Preponderance of Power: National Security, the Truman Administration, and the Cold War* (Stanford, Calif.: Stanford University Press, 1992).

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and are important, there is still the question of how statesmen grasp their contours from the inside, so to speak," and of what they will do about them.[25]

Friedberg found that in practice British officials reacted to decline haphazardly, pursuing policies that "simply ignored or papered over serious underlying weaknesses in Britain's position or, in solving certain problems, created new and perhaps more dangerous ones." This is not the response one would expect from a unitary actor responding rationally to incentives from the international system, and he argued that to explain it properly one had to consider not merely changes in relative capabilities but also organizational, intellectual, and domestic political factors. Assessments of relative power by policy-making elites, Friedberg concluded, "are related to but not directly determined by reality" and are, "in turn, related to but not fully determinative of policy."[26]

Leffler's study of American foreign policy during the early cold war examined the opposite situation—a case in which relative power was increasing rather than decreasing. Instead of following the lead of most traditional or revisionist historians in highlighting the objective nature of either a postwar Soviet threat or an American ideological quest for global dominance, he took his stand with the postrevisionists and focused on the dynamic interaction between the two countries, their goals, and their relative strength. Most importantly, he demonstrated how changing capabilities helped to drive policymakers' perceptions of external threats, interests, and opportunities. Worries about the Soviet Union underlay the policies of the Truman administration, Leffler argued, but those worries were themselves partly the product of increased American strength: American policymakers were concerned not about an immediate or primarily military threat but rather about some potential future challenge to America's broader environment. Only the greatest of powers, one might point out, have the luxury of viewing their national interests so expansively; certainly the United States did not do so earlier in its history, when its ideals and institutions were the same but its geopolitical position was different.

The neoclassical realists pick up where these earlier waves left off and demonstrate the applicability of this line of analysis to a wide variety of times and places. Thus, in his compelling study of U.S. foreign policy in the late nineteenth century, *From Wealth to Power*, Fareed Zakaria asks: "Why, as states grow increasingly wealthy, do they build

[25] Friedberg (fn. 24), 8.
[26] Ibid., 295, 290–91.

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large armies, entangle themselves in politics beyond their borders, and seek international influence?" (p. 3). Echoing the basic answer of the first wave, he argues that this behavior stems from the tendency of states to use the tools at their disposal to gain control over their environment. William Curti Wohlforth, meanwhile, grounds his analysis of Soviet foreign policy during the cold war in the notion that "state behavior [is an] adaptation to external constraints conditioned by changes in relative power."[27] And Thomas J. Christensen, in *Useful Adversaries*, argues that U.S. and Chinese foreign policies during the early cold war were driven in the first place by shifting distributions of power in the international system.

The influence of relative power on national policies is not obliterated even by world-historical leaders—or at least so Randall L. Schweller contends in *Deadly Imbalances*, his neoclassical realist study of foreign policy dynamics before and during World War II. Conventional wisdom that explains the onset and course of that war largely by reference to the character and views of Adolph Hitler is misguided, Schweller argues, because the structure of the international system—that is, the distribution of material power capabilities across the units—had a critical impact on alliance patterns and foreign policies during the 1930s and 1940s. He documents the existence of a comprehensive international pecking order dominated by three poles (the United States, the Soviet Union, and Germany) and traces its influences on the behavior of powers of various different sizes. His analysis makes it clear that the conventional neorealist division between bipolar and multipolar systems is inadequate for many purposes and that a much closer look at the distribution of power may be necessary in order to uncover the foreign policy effects that system structure should be expected to produce.

Perception and Misperception in International Politics

In stressing the primacy of relative power, the neoclassical realists part company with the *Innenpolitikers*. They separate themselves from many other structural theorists, however, through a further contention that the impact of such power on policy is indirect and problematic. The first intervening variable they introduce is decision-makers' perceptions, through which systemic pressures must be filtered.

[27] William Curti Wohlforth, "Realism and the End of the Cold War," in Brown et al., 8. This article follows through on the argument of Wohlforth's book *The Elusive Balance* and should be read as its final chapter.

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Purely systemic explanations of foreign policy presume a reasonably accurate apprehension by officials of the distribution of power and a reasonably direct translation of such apprehensions into national policy. "In most structural realist formulations," Friedberg noted, "assessment [of relative power] through rational calculation plays the part of a reliable but invisible transmission belt connecting objective [material] change to adaptive behavior."[28] Robert O. Keohane has made the same point, arguing that for most systemic theorists "the link between system structure and actor behavior is forged by the rationality assumption, which enables the theorist to predict that leaders will respond to the incentives and constraints imposed by their environments. Taking rationality as a constant permits one to attribute variations in state behavior to various characteristics of the international system."[29]

Neoclassical realists, in contrast, argue that the notion of a smoothly functioning mechanical transmission belt is inaccurate and misleading. The international distribution of power can drive countries' behavior only by influencing the decisions of flesh and blood officials, they point out, and would-be analysts of foreign policy thus have no alternative but to explore in detail how each country's policymakers actually understand their situation.[30] What this means in practice is that the translation of capabilities into national behavior is often rough and capricious over the short and medium term.

Friedberg found that in turn-of-the-century Britain "official assessments did not adjust steadily, but neither did they shift dramatically and decisively as the result of external shocks. . . . [C]hange went forward as the result of gradual, diffuse intellectual developments that were consolidated and accelerated by periodic crises."[31] The process of assessment, moreover, was fragmented along bureaucratic and functional lines within the British government, with debates over relative power centering on simple numerical indicators of capability which often held sway because of their familiarity or cognitive appeal rather than their substantive appropriateness. As a result, the actual British policy response to relative decline was significantly more halting, inconsistent, and "nonstrategic" than a simple structural model would predict.

Every neoclassical realist makes a similar point, and some put perceptions at the heart of their work. In *The Elusive Balance*, for example,

[28] Friedberg (fn. 24), 13.

[29] Keohane, "Theory of World Politics," in Keohane (fn. 1), 167.

[30] Following Robert Jervis's *Perception and Misperception in International Politics* (Princeton: Princeton Princeton University Press, 1976), Wohlforth first dwelt on the implications of this point in "The Perception of Power: Russia in the Pre-1914 Balance," *World Politics* 39 (April 1987).

[31] Friedberg (fn. 24), 288.

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Wohlforth supports the general thrust of Leffler's argument while looking at cold war dynamics from the Soviet side. World War II may have eliminated the Axis, he points out, but it did little to establish a clear hierarchy among the victorious allies and thus set the stage for endless disputes in the decades afterward. At base, he contends, the recurrent cycles of superpower tension from the 1940s to the 1980s were quite similar, and all were rooted in the ambiguities of relative power and policymakers' perceptions of it: "Each [cycle of tension] was shaped by a change in the power relationship differently interpreted by the two sides. . . . In the wake of each shift, each side tried to maximize its own position. Unwilling to go to war to test the power distribution, they reached stalemates after crises, posturing and signaling until a new perceived shift led to another round" (pp. 301–2).

For Wohlforth, therefore, the cold war is best understood not as a stable bipolar arrangement in which the superpowers acted as sensible duopolists but rather as an ongoing dispute between the U.S. and USSR over who had how much power and what influence over the international system they were thus entitled to exercise. The Soviet Union, he argues, constantly struggled to gain a share of the international spoils—influence abroad, control over international institutions, general prestige and deference—commensurate with its perceived power capabilities. The United States, perceiving its own power capabilities to be greater and more diversified, struggled to deny the Soviets such a global role. Periodically these tensions came to a boil, with the episodes displaying a familiar pattern: "a perceived shift in power, publicly acknowledged by both sides; a new Soviet drive for increased prestige; positive early feedback on the new policy; sharp crises that eventually revealed the contradictions between the two sides' interpretations of the political implications of the power shift"; and an eventual relaxation of tensions based on mutual acceptance of a stalemate (p. 182). Wohlforth argues that during 1983–85 the last cold war cycle began to wind down and would probably have ended with a new mini-détente ratifying the status quo circa, say, 1970. In 1985, however, Gorbachev's reforms altered the picture irrevocably, leading (albeit unintentionally) to the shedding of the Soviet empire and then the dissolution of the USSR itself.

Together Leffler and Wohlforth provide a comprehensive view of the two superpowers' foreign policies from the beginning of the cold war to its end, with changing relative power ultimately driving threat perceptions at each key point. Tracing the connections between power and policy, however, is more difficult than it might seem—because, as Wohlforth says, "rapid shifts in behavior may be related to perceived

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shifts in the distribution of power which are not captured by typical measures of capabilities." Over the decades U.S. and Soviet perceptions of power "followed a broad pattern . . . [that] was connected to changes in real capabilities . . . [but] it would be impossible to choose a single indicator or composite index [of power capabilities] that would predict the precise perceptual pattern without prior knowledge" (pp. 294, 302).[32]

As a case study of how relative material capabilities, perceptions of them, and other factors combine to shape historical developments, Wohlforth offers Soviet policy at the end of the cold war. Gorbachev was spurred to launch his campaign of domestic renewal, he shows, by external stalemate, internal assessments that Soviet capabilities had *greatly deteriorated*, and *a conviction that appropriate reforms could* undo the damage. It was the combination of concern over perceived relative decline and confidence that he could reverse it, in other words, that led Gorbachev to embark on the far-reaching changes which ultimately brought his entire system crashing down. The full and devastating extent of Soviet weaknesses became clear only as the reforms progressed, however, and so by the time the Soviet Union's external and internal collapses suddenly loomed they were practically faits accomplis.[33]

Such vagaries are a common feature of neoclassical realist analysis. In their books Zakaria and Christensen both note the importance of perceptual "shocks," in which single events suddenly make decision makers aware of the cumulative effects of gradual long-term power trends.[34] Elsewhere Christensen argues that European leaders have often misread both the distribution of capabilities and the efficacy of

[32]The waters are further muddied, he argues, by a host of other problems: "Power cannot be tested; different elements of power possess different utilities at different times; the relation of perceived power to material resources can be capricious; the mechanics of power are surrounded by uncertainty; states possess different conversion ratios and comparative advantages; the perceived prestige hierarchy and the military distribution may not coincide for prolonged periods; states adopt asymmetrical strategies to maximize their positions and undercut rivals; signals get confused among allies, rivals, and domestic audiences" (pp. 306–7).

[33]In addition to his article "Realism and the End of the Cold War" (fn. 27), Wohlforth has teamed up with Schweller for a further neoclassical realist take on this subject; see Randall L. Schweller and William C. Wohlforth, "Power Test: Updating Realism in Response to the End of the Cold War," *Security Studies* (forthcoming). On the difficulties in drawing clear theoretical lessons from these events, however, see William C. Wohlforth, "Reality Check: Revising Theories of International Politics in Response to the End of the Cold War," *World Politics* 50 (July 1998).

[34]Zakaria finds that American "statesmen's perceptions of national power shift[ed] suddenly, rather than incrementally, and [were] shaped more by crises and galvanizing events like wars than by statistical measures" (p. 11). Christensen argues that it was only the sudden awareness, in 1947, of the extent of British decline that shocked the Truman administration into recognizing the true distribution of power and triggered the shift toward active containment (pp. 32ff.).

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offensive and defensive military strategies, and thus acted in ways contrary to what pure systemic theories would predict.[35] And Schweller, finally, argues in *Deadly Imbalances* that it was actually a misperception of the distribution of power which drove the foreign policy of one of the poles of the international system at the beginning of World War II. Given the true state of affairs, he writes,

> it would have been far better for the Soviets to have balanced against, rather than bandwagoned with, Germany [in 1939]. In that case Stalin would have presented Hitler with the prospect of a two-front war, seriously undermining the Führer's strategy and perhaps causing its abandonment. But because he mistakenly perceived Europe as a tripolar, not a bipolar, system with France and Britain as the third pole, Stalin expected a war of attrition in the West. The fall of France abruptly ended Stalin's dream of easy conquests in a postwar period when the rest of Europe would be exhausted. (p. 168)

Bringing the State Back In

The second intervening variable emphasized by neoclassical realists—especially Zakaria and Christensen—is the strength of a country's state apparatus and its relation to the surrounding society. Gross assessments of the international distribution of power are inadequate, they contend, because national leaders may not have easy access to a country's total material power resources. Once raised, the notion that international power analysis must take into account the ability of governments to extract and direct the resources of their societies seems almost obvious, and in fact it simply involves incorporating into international relations theory variables that are routine in other subfields of political science.[36] And yet this represents an important and powerful development in realist

[35] Thomas J. Christensen, "Perceptions and Alliances in Europe, 1865–1940," *International Organization* 51 (Winter 1997).

[36] As Zakaria points out, everyone knows Charles Tilly's mantra that "war made the state and the state made war"; it is just that heretofore the implications of the first clause have received far more attention than those of the second. See Zakaria, *From Wealth to Power,* 39–40; Tilly, "Reflections on the History of European State-Making," in Charles Tilly, ed., *The Formation of National States in Western Europe* (Princeton: Princeton University Press, 1975), 42; and Christensen, *Useful Adversaries,* 20ff. A similar stress on the role of state structure is a characteristic of some recent *Innenpolitik* theories as well, although the two schools differ over the nature and importance of this variable and the interpretation of many cases; for an overview of this work, see Evangelista (fn. 8). For pioneering examinations of the role of the state in the formation and implementation of foreign policy, see Peter J. Katzenstein, ed., *Between Power and Plenty* (Madison: University of Wisconsin Press, 1978); Stephen Krasner, *Defending the National Interest* (Princeton: Princeton University Press, 1978); Ikenberry et al. (fn. 20); and Michael Mastanduno et al., "Toward a Realist Theory of State Action," *International Studies Quarterly* 33 (December 1989).

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theorizing, for it brings analysis significantly closer to the real world without abandoning the paradigm's core concepts and assumptions.

Zakaria observes that historians note the expansion of American foreign policy in the years before World War I and ask why it occurred. Yet for a while, even after the United States had become perhaps the richest country in the world, most opportunities to expand American influence abroad were rejected—and even when it did become active later on, the U.S. lagged behind its European counterparts. "For a political scientist," therefore, "viewing the country's power and expansion in comparative perspective, the more puzzling question is why America did not expand more and sooner" (p. 5).

Zakaria concludes, after testing dozens of opportunities for expansion against propositions derived from different theories, that American external behavior depended on the means at the disposal of national decision makers. He thus affirms the logic that capabilities shape intentions but finds it necessary to introduce state strength as an intervening variable between national capabilities and officials' behavior: "Foreign policy is made not by the nation as a whole but by its government. Consequently, what matters is state power, not national power. State power is that portion of national power the government can extract for its purposes and reflects the ease with which central decisionmakers can achieve their ends" (p. 9). His story of American foreign policy during these years, therefore, includes a discussion of the emergence of the administrative state:

> The decades after the Civil War saw the beginning of a long period of growth in America's material resources. But this national power lay dormant beneath a weak state, one that was decentralized, diffuse, and divided. The presidents and their secretaries of state tried repeatedly to convert the nation's rising power into influence abroad, but they presided over a federal state structure and a tiny central bureaucracy that could not get men or money from the state governments or from society at large. . . . The 1880s and 1890s mark the beginnings of the modern American state, which emerged primarily to cope with the domestic pressures generated by industrialization. . . . This transformation of state structure complemented the continuing growth of national power, and by the mid-1890s the executive branch was able to bypass Congress or coerce it into expanding American interests abroad. America's resounding victory in the Spanish-American War crystallized the perception of increasing American power . . . [and] America expanded dramatically in the years that followed. (pp. 10–11)

Zakaria explicitly tests propositions drawn from defensive realism against his cases and finds that such a security-based approach is only

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sporadically supported by the evidence. According to defensive realism, he claims, nations are supposed to exert themselves on the international scene "in times of insecurity, against powerful nations with aggressive intentions." Instead, "when confronted by real threats . . . the United States usually opted to contract its interests." Conversely, "greater security bred greater activism and expansion" (pp. 11–12).

Christensen, meanwhile, notes the widespread consensus among scholars that Sino-American cooperation from 1972 onward is best explained by a shared realist desire to balance against the Soviet Union—and the equally widespread consensus that earlier Sino-American tensions are best explained by *Innenpolitik* variables (such as ideological differences, domestic political pressures, or leaders' psychology). He sets out to show that the latter proposition is not strictly true and that American and Chinese behavior had its real source in the international system even during the late 1940s and 1950s.

Christensen argues in *Useful Adversaries* that at critical points during these years both the American and the Chinese leadership felt compelled to mobilize national resources in order to respond to perceived shifts in the international balance of power—to engage, that is, in what Waltz describes as "internal balancing" (p. 245).[37] Christensen stresses, however, just how difficult it is for countries to execute such operations, especially when they are accompanied by major shifts in national policy. He therefore introduces the concept of "national political power," which he defines as "the ability of state leaders to mobilize their nation's human and material resources behind security policy initiatives." Like Zakaria's "state power," this acts as "a key intervening variable between the international challenges facing the nation and the strategies adopted by the state to meet those challenges" (pp. 11, 13). Because American and Chinese statesmen lacked sufficient "national political power" to do exactly as they pleased, Christensen argues, they had to use domestically popular but unnecessary policies in a secondary arena (conflict with each other) as a cover for unpopular but necessary policies in a primary arena (mobilization against the Soviet Union):

> Viewing basic changes in the international balance of power, Truman in 1947 and Mao in 1958 decided to mobilize their nations around long-term strategies designed to respond to those shifts. In both cases, the strategies adopted required significant public sacrifice in peacetime, so the leaders faced difficulties in selling those strategies to their respective publics. The manipulation or exten-

[37]Cf. Waltz (fn. 1), 168.

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> sion of short-term conflict with the other nation, while not desirable on straightforward international or domestic grounds, became useful in gaining and maintaining public support for the core grand strategy. (p. 6)[38]

Christensen does not take a position in the theoretical debate between defensive realists and their critics over whether active foreign policies are usually driven by increased power or increased threat; his model is general enough to incorporate both. From his tone and choice of cases, however, one gets a picture of far-sighted elites sensitive to the consequences of changing relative power, yoked to penny-pinching publics who respond only to obvious, short-term military threats. The elites tend to get what they want in the end but have to make concessions to their publics along the way—with the result that foreign policy is linked to systemic incentives but not wholly determined by them.

Other neoclassical realists advocate exploring the influence of additional intervening variables on foreign policy. Friedberg captures their general attitude when he writes that "neorealists are probably right that, all other things being equal, multipolar systems are intrinsically unstable. In the real world, however, everything else is not equal, and nonstructural factors can serve either to exacerbate or to mitigate the tendencies that are inherent in a system's structure."[39] Schweller argues in *Deadly Imbalances* that a full theory of foreign policy should include the nature of states' goals or interests, which he operationalizes as the degree to which they are status quo or revisionist—satisfied or dissatisfied with the existing distribution of international spoils, "the prestige, resources, and principles of the system" (p. 24).[40] By combining degrees of relative power and revisionism, he conjures up an international bestiary and shows how each country played to its predicted type before and during World War II: strongly revisionist great powers such as Nazi Germany acted like "wolves," moderately revisionist great powers such as the Soviet Union acted like "foxes," indifferent great powers such as

[38] In some respects Christensen follows here in the footsteps of revisionist historians such as Richard M. Freeland; see Freeland, *The Truman Doctrine and the Origins of McCarthyism: Foreign Policy, Domestic Politics, and Internal Security, 1946–48* (New York: Schocken Books, 1974). Unlike revisionist analyses of Truman's China policy, however, Christensen downplays the role of economic motives in American behavior and sees the Truman administration as using domestic anticommunism rather than creating it, and being in control of it rather than being controlled by it.

[39] Aaron L. Friedberg, "Ripe For Rivalry: Prospects for Peace in a Multipolar Asia," *International Security* 18 (Winter 1993–94), 11. See also Randall L. Schweller, "Domestic Structure and Preventive War: Are Democracies More Pacific?" *World Politics* 44 (January 1992). For a neoclassical realist analysis of how domestic-level variables can be incorporated into realist theories, see Jennifer Sterling-Folker, "Realist Environment, Liberal Process, and Domestic-Level Variables," *International Studies Quarterly* 47 (1997).

[40] For Scwheller's discussion of revisionism, see pp. 19–26; and idem, "Bandwagoning for Profit: Bringing the Revisionist State Back In," in Brown et al.

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the United States acted like "ostriches," revisionist lesser powers such as Italy and Japan acted like "jackals," and so forth.

Quite apart from the vividness of its presentation there is clearly something to this idea, but unfortunately Schweller slights discussion of the sources of revisionism and so fails to integrate the concept organically into his broader systemic argument. Sometimes he implies that revisionism is a domestic pathology—that is, a purely unit-level variable. Yet at other times he implies that revisionism can emerge simply because changes in the systemic superstructure (the distribution of international spoils) do not keep pace with changes in the systemic base (the distribution of power capabilities). This latter revisionism would not be a unit-level factor at all and would not require the positing of a true difference in state interest, abstractly conceived: it would be a product of the dynamics of the system, rather than following from the character of the revisionist state itself. One of the chief contributions of Gilpin, Kennedy, and Mandelbaum, in fact, was to show just such a process at work time and again and to illustrate how much history could be accounted for by the simple story of "differentials in growth rates and technological change, leading to shifts in the global economic balances, which in turn gradually impinge upon the political and military balances."[41] Contra Schweller, therefore, revisionism may well create more trouble—and require more accommodation—in the practical realm than in the theoretical one.

Designing Social Inquiry

A distinct methodological perspective flows from neoclassical realism's theoretical argument: analysts wanting to understand any particular case need to do justice to the full complexity of the causal chain linking relative material power and foreign policy outputs. Realism, in this view, is a theoretical hedgehog: it knows one big thing, that systemic forces and relative material power shape state behavior. People who ignore this basic insight will often waste their time looking at variables that are actually epiphenomenal. Yet people who cannot move beyond the system will have difficulty explaining most of what happens in international relations. Waltz himself captured this dynamic best when he wrote: "The third image describes the framework of world politics, but without the first and second images there can be no knowledge of the forces that determine policy; the first and second images describe

[41] Kennedy (fn. 22), xx.

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the forces in world politics, but without the third image it is impossible to assess their importance or predict their results."[42]

Neoclassical realists therefore think that neither spare game-theoretic modeling nor pure "thick description" are good approaches to foreign policy analysis. They favor beginning intellectually at the systemic level but then taking care to trace precisely how, in actual cases, relative power is translated and operationalized into the behavior of state actors.[43] To some extent, they agree with Robert O. Keohane that "the debate between advocates of parsimony and proponents of contextual subtlety resolves itself into a question of *stages*, rather than either-or choices. We should seek parsimony first, then add on complexity while monitoring the effects this has on the predictive power of our theory: its ability to make significant inferences on the basis of limited information."[44] A major dilemma they confront, however, is their appreciation of the degree to which their central, parsimonious independent variable needs to be studied *in conjunction with* a variety of messy contextual factors in order to say much of interest about their subject matter. For neoclassical realism, to paraphrase Clausewitz, explaining foreign policy is usually very simple, but even the simplest explanation is difficult.

While many in the field have come to favor a formal, universalist approach to political phenomena, neoclassical realists stubbornly insist that significant area expertise is critical for an accurate understanding of countries' foreign policy behavior. The theory's basic concepts "are simple and generalizable across cultures and political systems," they contend, but "the application of the approach to any given country requires a great deal of knowledge about the nation in question" (Christensen, 248). To investigate how perceptions matter, for example, one has to get inside the heads of key state decision makers, something that often requires foreign language capabilities and/or archival research. And to incorporate state structure as an intervening variable, one has to know a decent amount about how different countries' political institutions work, both in theory and in practice. Accordingly, the volumes by Wohlforth and Christensen (like those by Friedberg and Leffler) are

[42] Kenneth N. Waltz, *Man, the State and War* (New York: Columbia University Press, 1959), 238.

[43] On the use of "process tracing," see Alexander L. George, "Case Studies and Theory Development: The Method of Structured, Focused Comparison," in Paul Gordon Lauren, ed., *Diplomacy: New Approaches in History, Theory, and Policy* (New York: Free Press, 1979); and Alexander L. George and Timothy J. McKeown, "Case Studies and Theories of Organizational Decisionmaking," in *Advances in Information Processing in Organizations*, vol. 2 (JAI Press, 1985). For an argument that *Innenpolitik* rather than systemic variables deserve to be the starting point for such a method, see Moravcsik (fn. 8), 541ff.

[44] Keohane (fn. 29), 187–88, emphasis in original.

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based on extensive and ground-breaking archival work, while both Schweller and Zakaria incorporate significant amounts of primary source material and historical nuance into their analyses.

Some might question whether the result is truly a theory of foreign policy at all. Hard-line positivists and historians, for example, might both point to the lack of precise predictions generated by neoclassical realism, the stress it places on detailed historical analysis, and so on, and claim that this approach should not really be called social science. (Positivists would say this disapprovingly, of course, while historians would say it approvingly.) Still, they would not be correct. "A theory," Waltz reminds us, "indicates that some factors are more important than others and specifies relations among them. . . . A theory arranges phenomena so that they are seen as mutually dependent; it connects otherwise disparate facts; it shows how changes in some of the phenomena necessarily entail changes in others."[45] Whether or not Waltz himself would agree, the neoclassical realist theory of foreign policy does most of these things, linking clearly specified independent, intervening, and dependent variables in a direct causal chain. "It does not simply state that domestic politics matter in foreign policy, but specifies the conditions under which they matter" (Christensen, 252).

Thus neoclassical realism predicts that an increase in relative material power will lead eventually to a corresponding expansion in the ambition and scope of a country's foreign policy activity—and that a decrease in such power will lead eventually to a corresponding contraction. It also predicts that the process will not necessarily be gradual or uniform, however, because it will depend not solely on objective material trends but also on how political decision makers subjectively perceive them. And it predicts that countries with weak states will take longer to translate an increase in material power into expanded foreign policy activity or will take a more circuitous route there.

It is true nonetheless that neoclassical realism has a decidedly nonmechanistic feel. It recognizes, in keeping with recent theoretical developments elsewhere in the physical and social sciences, that sometimes small choices can have big consequences and that foreign policy behavior may look "clocklike" only from a distance and over the long term; on close inspection and over the short to medium term, "cloudlike" activity may be the norm.[46] Furthermore, neoclassical real-

[45] Waltz (fn. 1), 8–10.

[46] For the cloud/clock distinction and its implications, see Gabriel A. Almond with Stephen Genco, "Clouds, Clocks, and the Study of Politics," in Almond, *A Discipline Divided: Schools and Sects in Political Science* (Newbury Park, Calif.: Sage, 1990).

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ism does not claim that power-related factors will drive all aspects of a state's foreign policy, only that they will affect its broad contours. Critics might charge that all these qualifications make the theory harder (though not impossible) to falsify and thus discredit. Adherents would have to concede the point and acknowledge this as a serious weakness; they might counter, however, that neoclassical realism has compensating advantages, particularly in the opportunities it offers for building satisfying comprehensive explanations of foreign policy without abandoning the theory's core assumptions. Its very looseness, in other words, makes it a useful framework for carrying out the kind of midrange theorizing that so often is the best social science can hope to achieve.

Conclusion: The Road Ahead

On the evidence of its works to date, the neoclassical realist school has much to offer students of foreign policy. Theoretically, it retains significant abstraction and parsimony in its basic form while providing clear guidelines for those interested in achieving greater richness and fit. Methodologically, it calls for an emphasis on theoretically informed narratives that trace how relative material power is translated into the behavior of actual political decision makers. Its adherents have shown that this approach can illuminate the behavior of countries in many regions of the world during many historical periods. By this point, however, it should be old news that relative power matters. Future work in this vein should therefore focus on continuing to specify the ways intervening unit-level variables can deflect foreign policy from what pure structural theories might predict.

For example, despite the best efforts of neoclassical realists, the link between objective material power capabilities and policymakers' subjective assessment of them remains murky. Critics might see the school's emphasis on perceptions as a giant fudge factor, useful for explaining away instances where foreign policy and material power realities diverge. Precise theoretical development in this area would be helpful, explicating just how various psychological, ideational, and cultural factors may affect how political actors perceive their own and others' capabilities and how such perceptions are translated into foreign policy.[47]

[47] Two recent examples of how psychological insights can successfully be brought into foreign policy analysis are Yuen Foong Khong, *Analogies at War: Korea, Munich, Dien Bien Phu, and the Vietnam Decisions of 1985* (Princeton: Princeton University Press, 1992); and Jonathan Mercer, *Reputation and International Politics* (Ithaca, N.Y.: Cornell University Press, 1996); a useful survey of recent work in this area is James M. Goldgeier, "Psychology and Security," *Security Studies* 6 (Summer 1997).

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It should be possible, moreover, to explore further the notion that national power capabilities must be "usable" to have an impact on foreign policy. Future work could analyze how different state structures constrain or facilitate the extraction and deployment of national power by state leaders. And other variables serving as power "multipliers" or "dividers" might be uncovered, operating by themselves or in conjunction with those already described. Stephen Peter Rosen and Kenneth M. Pollack, for example, have recently argued that cultural variables have shaped Indian and Arab institutions, respectively, in ways detrimental to military effectiveness; such hybrid theoretical linkages could easily be incorporated into a neoclassical realist framework without straying too far from the model's basic power-related argument.[48]

The impact of changing relative power on other factors could also be an important field of inquiry. Thus instead of viewing ideas as either purely independent or purely dependent variables, future neoclassical realists could explore how, in conjunction with relative power, they could play both roles simultaneously. From the Founding onward, for example, Americans have generally agreed that their domestic institutions should be disseminated to others but have disagreed over the form this ideological transmission should take. "Exemplars" have believed that the nation should rest content with setting an example for the world, while "crusaders" have believed the nation should take a more direct and activist role in shaping political developments abroad in accordance with American ideals.[49] During most of the nineteenth century the more modest version generally prevailed, typified by John Quincy Adams's admonition that the country should go not abroad "in search of monsters to destroy." By the twentieth century the ambitious version had gained the upper hand, as Woodrow Wilson took the nation to war to make the world "safe for democracy."[50] From a neoclassical realist perspective, the first place to look in explaining such a shift

On ideas, see Sheri Berman, "Ideas, Norms, and Culture in Political Analysis" (Paper delivered at Workshop on Ideas and Culture in Political Analysis, Princeton University, May 1998). A recent sampler of foreign policy–related cultural analysis is Peter Katzenstein, ed., *The Culture of National Security: Norms and Identity in World Politics* (New York: Columbia University Press, 1996).

[48] Rosen, *Societies and Military Power: India and Its Armies* (Ithaca, N.Y.: Cornell University Press, 1996); and Pollack, "The Influence of Arab Culture on Arab Military Effectiveness" (Ph.D. diss., MIT, 1996).

[49] See Robert W. Tucker, "Exemplar or Crusader? Reflections on America's Role," *National Interest*, no. 5 (Fall 1986).

[50] The Adams quotation can be found in his "Address of July 4, 1821," in Walter LaFeber, ed., *John Quincy Adams and American Continental Empire* (Chicago: Times Books, 1965), 45; the Wilson quotation can be found in his "Address Recommending the Declaration of a State of War," April 2, 1917, *President Wilson's Foreign Policy: Messages, Addresses, Papers*, ed. James B. Scott (New York: Oxford University Press, 1918), 287.

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would not be intellectual history or presidential psychology, but the massive increase in relative power the country had experienced between Adams and Wilson. One might still need to know the content of American political ideology, however, in order to understand the specific policy choices officials made in either era.

Neoclassical realism should also redirect our attention toward critical issues such as what drives the waxing and waning of material power capabilities in the first place. Factors such as differential growth rates, it argues, will end up dictating the roles countries can play in world politics. For this reason if for no other, as Wohlforth says, "Any realist discussion of international change must combine the domestic and international levels of analysis. A [purely structural] realist explanation cannot offer a comprehensive account of precisely why a given state's domestic political, social, and economic institutions decline in comparison to those of competing powers."[51]

If neoclassical realists continue to incorporate unit-level intervening variables into their basic power-oriented argument, ironically, they might find themselves bumping into chastened *Innenpolitikers* coming from the other direction. For as Matthew Evangelista has noted, "Perhaps the most promising development in the field is the recognition among scholars inclined toward domestic explanations for foreign policy that these explanations are inadequate. Many scholars understand that they must incorporate factors at the level of the international system into their explanations and, moreover, that they must do so in ways that are more systematic than the mere assertion that 'everything matters.'"[52]

Future work, finally, should also develop neoclassical realism's distinct perspective on policy issues. Offensive realists generally predict that the future of international relations will resemble its conflict-ridden past. Defensive realists and *Innenpolitikers* often disagree, arguing that great power conflict is likely to emerge if and only if military technology favors preemption or domestic pathologies drive countries to

[51] Wohlforth (fn. 27), 19. This does not mean, of course, that easy answers to such questions are available. Paul Krugman was recently asked, "What are the great puzzles economists are trying to solve these days?" He replied, "The biggest question of all is still, 'Why are some countries rich and some countries poor?' Long ago, Bob Solow—the father of growth theory in economics—said that when it comes down to the question of why some countries do well over the long term and some do badly, you always end up in a blaze of amateur sociology. We're a little bit past that, but not much." *Wired*, May 1998, 146.

[52] Evangelista (fn. 4), 202; see also Harald Müller and Thomas Risse-Kappen, "From the Outside In and the Inside Out: International Relations, Domestic Politics, and Foreign Policy," in Skidmore and Hudson (fn. 8), 29–32.

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flagrant excess.[53] Neoclassical realists, in contrast to both, emphasize the contingency of history and the importance of how foreign policy is actually conducted, because they see certain situations as particularly "ripe for rivalry."

For example, they view China's recent attempts to throw its weight around as normal and entirely predictable—just the sort of behavior one would expect from "a thoroughly traditional great power."[54] "Fast-rising powers are almost invariably troublemakers," Friedberg writes, "if only because they are reluctant to accept institutions, border divisions, and hierarchies of political prestige put in place when they were comparatively weak. Emerging powers seek to change, and in some cases to overthrow, the status quo and to establish new arrangements that more accurately reflect their own conception of their place in the world."[55] Moreover, because rapid growth often produces social turmoil, because accommodation is tricky, and because China is emerging onto the scene in a multipolar regional environment lacking most of the elements that can mitigate conflict, the future of East Asian (as opposed to European) international politics seems especially problematic.

Yet for neoclassical realists these are tendencies, not inexorable laws; whether the region actually erupts into conflict, they argue, will depend in large part on how the United States, China, and other important Asian powers decide to manage their ambivalent relationships. The starting point for policy advice, the school's adherents believe, is to recognize that the United States today is a status quo hegemon, whose fortunate situation is captured by the statement of a frank British official in 1934: "We are in the remarkable position of not wanting to quarrel with anybody because we have got most of the world already or the best parts of it and we only want to keep what we have got and prevent others from taking it away from us" (cited in Schweller, 24). In this view, one of the main tasks of American policymakers over the next several years will be to analyze the nature and extent of Chinese revisionism and determine at what point accommodation is no longer wise. After

[53] The degree of optimism or pessimism about the future among *Innenpolitikers* and defensive realists, therefore, depends in part on how likely they think it is that at least one important power will succumb to a domestic pathology. For constrasting offensive and defensive realist views about future European security, see Mearsheimer, (fn. 9); Stephen Van Evera, "Primed for Peace," *International Security* 15 (Winter 1990–91); and Jack Snyder, "Averting Anarchy in the New Europe," *International Security* 15 (Winter 1990–91).

[54] Fareed Zakaria, "Speak Softly, Carry a Veiled Threat," *New York Times Magazine,* February 18, 1996, 36.

[55] Aaron Friedberg, "Warring States: Theoretical Models of Asia Pacific Security," *Harvard International Review* 18 (Spring 1996), 13.

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all, Schweller reminds us, the difference between a modestly and a strongly revisionist power is the difference between Weimar and Nazi Germany, which obviously merited different policy responses (p. 32).

In the end, neoclassical realism's relative modesty about its ability to provide tidy answers or precise predictions should perhaps be seen not as a defect but rather as a virtue, stemming as it does from a judicious appraisal of its object of inquiry. As Aristotle noted, the "actions which political science investigates, admit of much variety and fluctuation. . . . We must be content, then, in speaking of such subjects . . . to indicate the truth roughly and in outline . . . for it is the mark of an educated man to look for precision in each class of things just so far as the nature of the subject admits."[56]

[56] Aristotle, *Nicomachean Ethics* 1:3, in Richard McKeon, ed., *The Basic Works of Aristotle* (New York: Random House, 1941), 936.

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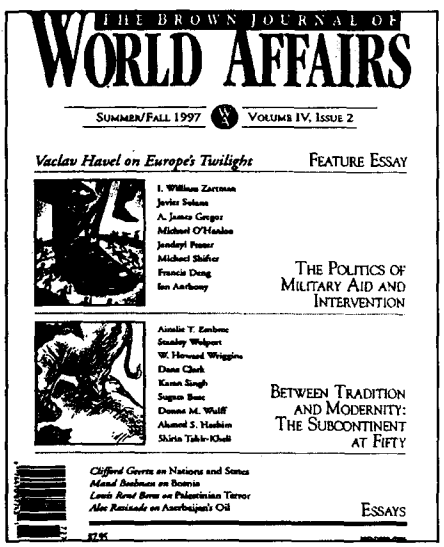

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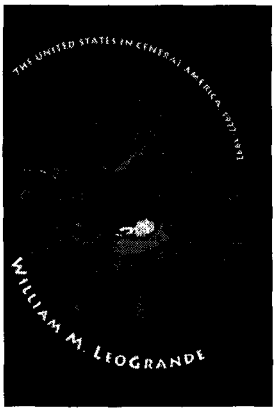

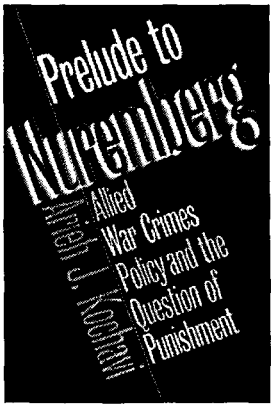

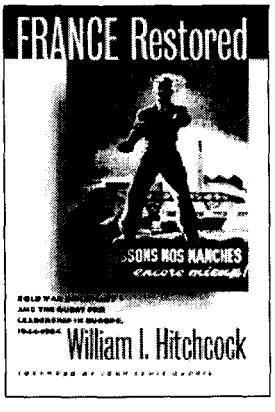

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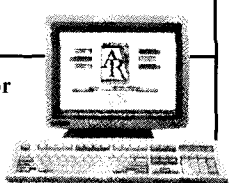

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